

104
TRADE PROVISIONS IN THE 1995 FARM BILL

Y 4. IN 8/16:T 67/6

Trade Provisions in the 1995 Farm B...

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

OCTOBER 19, 1995

Printed for the use of the Committee on International Relations



U.S. GOVERNMENT PRINTING OFFICE

44-247 CC

WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055766-6

TRADE PROVISIONS IN THE 1995 FARM BILL

Y 4. IN 8/16:T 67/6

Trade Provisions in the 1995 Farm B...

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

OCTOBER 19, 1995

Printed for the use of the Committee on International Relations



U.S. GOVERNMENT PRINTING OFFICE

44-247 CC

WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055766-6

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
SAM BROWNBAC, Kansas
DAVID FUNDERBURK, North Carolina
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South
Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California

LEE H. HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ENI F.H. FALCOMAVEGA, American
Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
ALCEE L. HASTINGS, Florida
ALBERT RUSSELL WYNN, Maryland
JAMES P. MORAN, Virginia
VICTOR O. FRAZER, Virgin Islands (Ind.)
CHARLIE ROSE, North Carolina
PAT DANNER, Missouri

RICHARD J. GARON, *Chief of Staff*

MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

TOBY ROTH, Wisconsin, *Chairman*

JAN MEYERS, Kansas
DONALD A. MANZULLO, Illinois
SAM BROWNBAC, Kansas
STEVEN J. CHABOT, Ohio
DANA ROHRABACHER, California
DOUG BEREUTER, Nebraska
CASS BALLENGER, North Carolina

SAM GEJDENSON, Connecticut
MATTHEW G. MARTINEZ, California
MICHAEL R. McNULTY, New York
ROBERT G. TORRICELLI, New Jersey
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York

EDMUND B. RICE, *Subcommittee Staff Director*

JOHN SCHEIBEL, *Democratic Professional Staff Member*

CONTENTS

WITNESSES

	Page
Mr. August Schumacher, Administrator, Foreign Agricultural Service, U.S. Department of Agriculture	4
Mr. Robert Kohlmeyer, Senior Vice President, World Perspectives, Incorporated	18
Mr. Stewart G. Huber, President, Farmer's Union Milk Marketing Cooperative	21
Mr. Eugene Bovee, Senior Vice President, CO Bank, ACB	23
Mr. Ron Willis, Director of International Programs, U.S. Meat Export Federation	24

APPENDIX

Prepared statements:	
Hon. Toby Roth, Chairman, Subcommittee on International Economic Policy and Trade	35
Mr. August Schumacher	36
Mr. Robert Kohlmeyer	43
Mr. Stewart G. Huber	49
Mr. Eugene L. Bovee	53
Mr. Ron Willis	62
Additional material:	
Letter to Mr. August Schumacher from Mr. Peter Gallagher, CEO, Australian Dairy Industry Council, Inc.	70

TRADE PROVISIONS IN THE 1995 FARM BILL

THURSDAY, OCTOBER 19, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to notice at 1:06 p.m., in room 2172, Rayburn House Office Building, Hon. Toby Roth (chairman of the Subcommittee) presiding.

Mr. ROTH. Good afternoon, Mr. Bereuter, Mr. Gejdenson.

When it comes to difficult trade issues, nothing is more contentious than agriculture, and this is where the academic principles of free markets and fair trade run into hard reality of subsidies and quotas.

We have barriers and other protections. The fact is that every major producing nation is fighting tooth and nail for a bigger share of the \$250-billion global trade and farm goods. For the United States, agricultural trade is a bright spot. We have a \$25-billion surplus in farm trade and we control nearly one-fourth of all global trade in agriculture, \$53 billion last year.

Our agricultural exports support more than 750,000 jobs in the United States and have a total economic impact of more than \$100 billion. We are No. 1 in certain commodities such as cotton, wheat and soy beans, and we are competitive in other areas such as beef, rice and apples. But it is, in some areas, such as dairy and other high-value products that we are outgunned by our competition. I am very concerned about that.

The reality is that many of our programs are essential to our farmers, to our exporters and to our farm economy. Our agricultural exporters face heavily subsidized competition and unfair trade practices. Already the EU outspends the United States by some six to one. The EU today spends more on promoting its wine exports than we do in promoting all of our agricultural exports.

And we have with us today very important panelists to deal with this issue. First we are going to hear from August Schumacher, administrator of the Foreign Agricultural Service of the USDA. And, second, we are going to be joined by a panel of experts representing our Agricultural Trade Industry.

I look forward to your testimony on the 1995 Farm Bill.

Before we do, I would like to call on our Ranking Member, Mr. Gejdenson, for any opening remarks he may have.

Mr. GEJDENSON. Thank you, Mr. Chairman.

One of the distressing things that has developed here as some Members, not those present here today, but Members of Congress, are looking to slice some of our export promotion programs. There is a proposal to cut 25 percent from non-agricultural export promotion. That I frankly think would be devastating to an economy that is increasingly a worldwide economy and in competition with countries that provide significantly more support for their exports than we do already.

It is further distressing when you take a look at the fact that we spend three-quarters of our export promotion dollars on agricultural exports.

So despite the fact that they constitute only 11 percent of our total exports, we are today spending three-quarters, 75 cents of every export promotion dollar on 11 percent of our total exports, and that 11 percent is far less labor-intensive than the 89 percent of our manufactured export.

That proposal to cut 25 percent from non-agricultural exports frankly could do significant damage to this economy. And if these Republicans, not those here today, but those who want to slash export promotion by 25 percent, maybe we should make sure that that export promotion cut is across the board. A 25 percent across-the-board cut in agricultural export promotion programs actually triples or quadruples the savings contained in their bill in dismantling the Commerce Department. There is no justification for exempting agricultural exports from these cost-cutting measures.

When you take a look at where we are today vis-a-vis Japan and France and other nations that significantly outspend us in industrial support, to then turn around and propose that there be a 25 percent cut in the meager effort that we are involved with in manufactured products would be, I think, devastating for this country.

If we combine the two, we can clearly cut both less, but it seems to me that a 25 percent cut in support for industrial manufactured exports is warranted, then maybe we should be looking at a 25 percent cut in agricultural exports as well.

I would like to express my admiration for Mr. Bereuter and his courageous statement last week regarding the bill to dismantle the Commerce Department, and for his expression of support for a unified budget.

I look forward to working with him and Chairman Roth on that bill and the Farm Bill.

Mr. Chairman, again I commend you for holding this hearing. This country's future is tied to exports. The jobs in our country are tied to exports. And simply trying to assault manufactured exports would be incredibly damaging to our country.

Mr. ROTH. Thank you very much, Mr. Gejdenson, for that very knowledgeable statement, and we do appreciate your focus on trade and what you have done to improve our economy.

And now I would like to ask Mr. Bereuter if he has any opening statement.

Mr. BEREUTER. I do, Mr. Chairman. Thank you very much.

I want to thank my colleague, Mr. Gejdenson, for his kind remarks, and build on what he has been saying in this respect, that we are, in my judgment, not spending enough on agricultural export promotion or sales. The cut should not be there and it should

not be on promoting our other exports of all types. We should be spending more because it is in our best interests to do that. And it is a very efficient use of our resources.

But second, Mr. Chairman, I want to commend you for holding hearings on this important and timely issue, the provision of the 1995 Farm Bill.

Today it is my understanding that the House Agricultural, Foreign Agricultural Subcommittee is holding a markup of Public Law 480 Food Assistance Programs, and will be considering the other agricultural export programs, such as the General Sales Manager, the Export Enhancement Program, the Market Promotion Program, the Cooperator Program.

Together, of course, the House Agriculture Committee and the House International Relations Committee, acting through this subcommittee, share jurisdiction over our Food Assistance and our Agricultural Trade Programs.

And I look forward to working cooperatively with the Agriculture Committee on these issues of importance to U.S. agriculture and U.S. agri business.

Mr. Chairman, the U.S. Department of Agriculture predicts that we will enjoy a whopping agricultural trade surplus of over \$25 billion in 1995.

As chairman of the Asia-Pacific Subcommittee, I am acutely aware of the fact that rapid growth in that part of the world has made over two billion consumers in that region hungry for U.S. products. For example, Mr. Chairman, through August of this year, China's agricultural imports of U.S. products grew by \$1.4 billion. Hong Kong's agricultural purchases grew by 300 million. Korea's agricultural purchases increased by \$1.1 billion. Japan bought an additional \$700 million worth of agricultural products. And Taiwan increased its agricultural purchases by \$300 million. Very, very impressive figures for our Asia markets.

Additionally, Mr. Chairman, the current U.S. agricultural trade surplus through August is a whopping \$18 billion. That is our surplus. That is \$5.7 billion increase over last year at this point. And increased exports to China, Japan, Korea, Taiwan and Hong Kong account for two-thirds of that increase.

Clearly, these startling statistics suggest that the U.S. agricultural industry is doing something right. The increased demand from the developing world will provide enormous opportunities for agriculture producers and exporters.

Nevertheless, Mr. Chairman, U.S. agriculture and Federal Government cannot afford to sit back and rest on our past successes. Intense competition for these markets is growing from both new, emerging and old competitors. The European Union still fights us with a war chest six times larger than our own for agricultural export promotion. And emerging markets are desperately clinging to protectionist policies to attempt to slow down demand for our products.

Therefore, Mr. Chairman, even the era of the Uruguay Round declining levels of direct export subsidies to the U.S. Federal Government will need to maintain flexible well-funded agricultural export promotion programs.

But having said that, we should not be static in demanding that these programs not change to reflect the growing demand in the developing world. Rather, and I look forward to our witnesses today for suggestions, we must continually seek to improve and reform our current agricultural export programs to reflect the changing markets for our products. Only by doing this can we continue to ensure our preeminence in agricultural trade.

And I will just close by mentioning that today I am circulating a letter to Secretary Christopher and USTR Mickey Kantor, and it is related to what happened on November 15, 1993, in Bogor, Indonesia. At the APEC meeting, where commitments were made to liberalizing trade, and the whole region by the year 2010, excellent news but now we find unfortunately, and almost predictably, that several East Asian countries are attempting to circumvent the very important commitments that were made at that APEC meeting. Particularly as they put it in sensitive sectors, like agriculture. They should be immune from the requirements to begin liberalizing immediately and continuously through free trade deadline.

In addition, many of these countries appear to be lobbying for non-specific weakened action agenda to implement the Bogor Declaration.

My letter to our distinguished Secretary of State and Trade Representative is to express our support and to discourage them from any idea that we will go for any weakening of the commitments, and give them some strength by a firm letter from Congress in their negotiation with these countries that are major trading partners, in some cases competitors.

So I welcome your signature and Gejdenson's and others. I am joined in this letter by Howard Berman, my Ranking Member on the Asia-Pacific Subcommittee. We are looking for a bipartisan expression of support to firm up the backbone, if that is needed, but at least provide some support in a negotiation sense for our key leaders on exports and foreign affairs.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Bereuter, for that well-thought-out statement, and I think that many people will be joining on that the letter you have there.

Mr. Schumacher, I am delighted that we have Mr. Goldthwait with us today also. Please proceed with your testimony.

STATEMENT OF AUGUST SCHUMACHER, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. SCHUMACHER. Thank you very much, Mr. Chairman, and Members of the Subcommittee.

What I would like to do is just give a very short summary and then take, of course, questions.

Mr. ROTH. Please.

Mr. SCHUMACHER. From you and the Members.

I am very pleased, again, as I mentioned to come before you today to discuss the operation of our Export Assistance Programs, particularly in light of the Farm Bill that is being discussed and debated in the Congress these last few months.

As all three Members have mentioned, particularly, the Chairman, agricultural exports are the success story in the U.S. trade picture in the last year or so. We have had consistently the second largest trade surplus among the nation's economic sectors. And it has become really a shining star in the U.S. balance-of-trade pictures as you and your colleagues have mentioned.

Most people in America do not realize that we now export more wheat than coal, more meat than aluminum, more fruits and vegetables than record albums and tapes, and more soy beans than ships and boats combined.

As we have heard from you, our exports will reach \$53.5 billion this current fiscal year, and if we add fish and wood products and lumber, we are well into \$65 billion to \$66 billion, if we take those altogether. So food, fish and wood products are \$65 billion, a very substantial amount indeed. This is nearly \$10 billion more than the previous fiscal year and we are expecting maintaining and maybe increasing this marginally for the next fiscal year on the order of \$54.5 billion. And with the decline in coffee prices, we think the trade surplus may even widen marginally in terms of benefiting the American balance-of-payments picture.

I think one of the issues we would like to share with you is we set a target in our agency of achieving a 50-percent increase by the year 2000. Now, it is a bit risky to set these numerical targets, but we have indicated the figures on the chart to my left and your right.

[Chart.]

We call this Export Vision 2000. And we feel that we are, in fact, well ahead of this schedule. If you will look at the numbers in 1996, where, as I mentioned, we are projecting \$54.5 billion. And if we are benchmarked to achieve this, we would have been at \$49.8 billion.

So we are well ahead of that, and we are very hopeful that we will achieve this 50-percent increase by the year 2000.

These export numbers that we have put before you I think confirm that jointly the Administration and Congress working together have an aggressive farm policy and we believe effective Export Assistance Programs. These are directly benefiting and achieving these results.

And as Congress continues to work on this Farm Bill, I think we have an opportunity to jointly improve these successful export tools.

I want to be very firm about this. This is not the time to weaken these tools or to reduce our resources that led to the success that we show on this chart, and to achieve the targets that we have set for both the private sector and the public sector supporting the private sector's role.

Clearly, the export market will be critically important to the well being of rural America, to the American farmers as we move more of this production into our export channels.

I would like to share a second chart with you.

[Chart.]

Our dependence on the export market is growing in agriculture. Already, as this chart shows—maybe, Bob, you can just point to this 1995.

Bob Cummings has done a wonderful job for us.

Twenty-five percent of agricultural gross cash receipts minus government payment is now export-dependent. We are nearly three times more dependent on international trade in rural America in agriculture than we are in our manufacturing sector.

And if you see the trend, we expect this will rise to 30 percent by the year 2000. That is why we are particularly keen to work closely with Congress and to make some adjustments as recommended in the President's Blue Book in some of our programs.

We must recognize, however, as you have pointed out in your opening statement, the competition that we have. Our friends in Australia are copying our programs in market promotion and they are giving direct grants to producer organizations, particularly in the Asian market that is so important to us. Particularly important in fruits and vegetables, but we are doing so well in Asia, our friends in Australia and New Zealand are really beginning to compete strongly with us in Japan and Hong Kong. We are doing very well on broccoli, apples and a whole series of products in Asia.

Our friends in Spain are spending \$40 million on market promotion. Again, competing straight up with us on horticulture.

An even less traditional competitor, Chile, has an export promotion fund of \$10 million. And last year, they organized an agency very similar to the Foreign Agricultural Service that has stood the American farmer in such good stead over the past 40 years.

Overall, government-industry funding by 18 major exporting countries for market promotion programs similar to our MPP and cooperator programs has totaled \$660 million in 1995. Even north of our border, Canada, in its 1995/96 budget, has announced a program of \$732 million American-equivalent dollars, a billion dollars in Canadian currency, for additional credit guarantees for agricultural products, including \$513 million U.S.-equivalent for wheat and barley credits through the Canadian Wheat Board.

Mr. Chairman, given this kind of competition, U.S. export development programs are critical to fostering the desire we have to work with the Congress to continue to expand.

Briefly, I am going to talk about the Export Credit Guarantee, Export Enhancement and the Market Development programs. Much of this is laid out in my statement, so I will just briefly summarize. Mr. Goldthwait and I can then answer the questions.

On the Credit Guarantee programs, we administer these under our GSM-102 and GSM-203 programs. We were working to establish, however, two new programs, a Facility Credit Guarantee Program and a Supplier Credit Guarantee Program to expand exports. This is very important, not only in our basic grains, but in our meats and our horticulture as more countries get into this market and we need to move these a bit more overseas, particularly in new and emerging markets where the credit systems are not quite as established.

A discussion, for example, last week with our friends in North Carolina, and also in north central States, indicated demand developing for turkey in Vladivostock. The banks are not quite ready for it in terms of normal commercial trade, and this is where our GSM programs, if agreed to by Congress, could be of great assistance to moving trade forward.

We want to particularly look at our trade assistance programs across the board, and make adjustments for the new realities in the post-GATT, post-Berlin Wall era.

Let me briefly then—it is laid out in more detail in my submitted testimony—discuss the Export Enhancement Program, which also includes the important Dairy Export Incentive Program and the SOAP and COAP Programs.

As you are well aware, in 1985 we reluctantly, and I say reluctantly, embarked on a policy of targeted export subsidization because of the aggressive policies of the European Union; they left us with very little choice. The Congress authorized the Export Enhancement Program and we have administered it very carefully, particularly recently as wheat prices have moved up.

I think it is very important that we maintain these programs at GATT limits that we have agreed to, and particularly as we have been going through some changes in the dairy programs possibly that we maintain a strong Dairy Export Incentive Program to keep our dairy products moving forward overseas.

The new changes are being reviewed by our Trade Policy Review Group; we are evaluating public comments. The proposed changes are laid out in terms of my statement, which we can take further comments on if you wish during the question period.

But the new regulations are being proposed and are being considered and we can take questions on that.

And then in conclusion, I would like to close on the Market Development Program, known as the MPP Program. This has been thoroughly reviewed and vigorously debated in the Congress. The MPP, along with the cooperator program (FM) have been vitally important in achieving the success that you have seen on the charts to your right.

As I mentioned, this is not the time to reduce these programs. In fact, the President has proposed a very aggressive budget, within our GATT limits. We would very much hope the Congress would stick to this.

The MPP and FM encourage the development, maintenance and expansion of our markets through cost-share assistance to eligible trade organizations. Our competitors are using every tool at their disposal under the GATT agreement—we call the Green Box tools—to compete with our farmers. We are going to compete straightforwardly with them and we want to work closely with our colleagues to meet the competitive challenges and opportunities available in the global marketplace worth \$250 million or more.

It is a mission my agency is deeply committed to. The President has been very supportive of our work and Secretary Glickman has testified repeatedly on the importance of this.

This concludes my testimony, Mr. Chairman. Mr. Goldthwait and I would be prepared to take questions at this time.

[The prepared statement of Mr. Schumacher appears in the appendix.]

Mr. ROTH. Thank you very much, Mr. Schumacher, for your excellent testimony.

While you were speaking, I noted the important chart you presented to our colleague. We were just wondering how realistic it is to reach that goal.

I see that the progression is straight up. There are no chips and there are no valleys.

How realistic is this and what does the industry and government have to do to meet this goal?

Mr. SCHUMACHER. Well, I think in large part—about 50 to 60 percent of the success we have had the last year or so has been due, of course, to market conditions. China has stepped out of the corn market. We have had some dry weather in certain countries. And the private sector has been very aggressive in value-added products.

But, again, the role of the government is a very important consideration. If you look at what happened in Japan, we broke open—Secretary Ling was very successful in the beef and citrus market through trade policy discussions with the Foreign Agricultural Service.

We have been recently very successful in Korea with the conclusion of the shelf-life agreements on pork, and pork prices have begun to bottom out and move out a little bit helping—

Mr. ROTH. Yes, but it is still difficult to penetrate the Korean market, is it not?

Mr. SCHUMACHER. It is still hard, but the Koreans have not imposed their snap-back provision because with their economy growing at 10 percent, the Vice Minister told me, "Mr. Schumacher, we like your pork and we are not going to invoke those snap-back provisions because we need more of it." And I think this is important.

Mr. ROTH. But that takes a lot of leverage to reach that point.

Mr. SCHUMACHER. Well, Korea is now our third largest market and there are real problems in Pusan, for example, in the phytosanitary area and others. But still we are moving in the right direction.

Mr. ROTH. This chart you have here, is that based on the present export programs?

Mr. SCHUMACHER. Yes.

Mr. ROTH. In other words, if this is based on the present export programs, could we have more of an ambitious program if the right changes were made in the Farm Bill?

Mr. SCHUMACHER. Well, certainly that is a consideration.

Mr. ROTH. I'm sorry?

Mr. SCHUMACHER. We think that may be possible, but, again, we must be very careful to remember that what goes up goes down, and we know with respect to 1972 we thought things would go very well through the 1980's. It did. And then we had difficulties in the early and mid-1980's.

So I am bullish. There is a big difference though, Mr. Chairman, from 1972 to 1995. Our markets are much more diverse, many more value-added products. You did not have all these emerging economies at that time. At that point, Mr. Goldthwait's predecessor negotiated with exportklub in Russia to sell grain. At this point, the private sector with market promotion money is selling many more different types of products from many more parts of the country to many more countries.

So I think this is a little more stable. I am a little more optimistic than I would have been if we were here in 1972. But predicting in a crystal ball is always difficult.

Mr. ROTH. Yes. Well, what do you see as your key tools for helping the private sector export successfully? Can you enumerate a couple of them?

Mr. SCHUMACHER. I will do so, sir.

One is to maintain market access. There are a lot of these new barriers that Congressman Bereuter mentioned that are emerging in terms of phyto-sanitary barriers. It is very important that our phyto-sanitary teams with APHIS and FSIS are properly funded to ensure that these barriers are not further erected.

You know, Secretary Glickman has continually referred to sound science. We have problems in Europe with hormone issues. Problems in China with the restrictions on citrus. Problems in Korea and Taiwan on apples, which we continue to try and break down.

Mr. ROTH. Well, what happens is these countries want to keep us out in agriculture and it becomes big standards, does it not?

Mr. SCHUMACHER. Non-scientific barriers somehow get imposed which are not consistent with GATT and so we are working very hard to assure them that our product meets the sound science test.

The second issue is on market promotion, working with small- and medium-size companies and cooperatives to make sure they also participate in getting product moving overseas.

Third is to make sure that we have good market intelligence, so that when our European friends start unfairly subsidizing, for example, chicken into Russian, that we are able to alert our people to that and take action.

And then fourth is the continuation and revision of the successful GSM-102/103 programs, and maintaining capability on the Export Enhancement Program in the event that the situation on grain changes.

Mr. ROTH. Mr. Schumacher, we are going to be holding some hearings on the State Trading Enterprise such as New Zealand's Dairy Board. And you are well acquainted with that. I represent the third largest dairy district in the nation, so I am interested in this topic.

Can you quickly give us an idea of what steps you are taking at USDA to stop these anti-competitive entities?

Mr. SCHUMACHER. This is a very important issue for us. The State Trading Organizations have been unfair competition to American exporters, not only in New Zealand, but other countries as well. They would, of course, maintain that they are cooperatively run, but they are a single-source trader and that we consider them unfair competition.

Second, Australia has their Dairy Board and their Wheat Board.

And our good friends in Canada continue to maintain their Wheat Board that is causing lack of transparency in price discovery in terms of their wheat exports, particularly in Latin America where they have gained market share.

And then as we get new countries coming in on WTO, in China, in Russia, in the former Soviet Union, State trading is a very important issue. We have had discussions. We are pushing hard on this. And even yesterday I had the OECD in. We hope to work more closely with them to continue to press hard to minimize the impact of State trading over time.

Mr. ROTH. Chris, do you want to supplement that?

Mr. GOLDTHWAIT. Mr. Chairman, I will give you just one example of the ways in which we are trying to approach this issue.

We are currently undertaking in the context of OECD a discussion of potential disciplines on credit guarantees, like our GSM-102 program. In that the most recent discussion we had, we tabled a paper where we asked for a transparency on the various activities of the State trading entities so that they will not be in a position to use their price manipulations to offset any potential disciplines on the credit guarantees that we agree to.

So we are using all of these differ fora that are created by the GATT Agreement and all of the opportunities that we see in other kinds of negotiations to push hard for a transparency and eventually then limits on the market distorting activities of these organizations.

Mr. SCHUMACHER. The New Zealand Dairy Board is very aggressive—

Mr. ROTH. I am sorry?

Mr. SCHUMACHER. The New Zealand Dairy Board is very aggressive in marketing their products overseas. We have talked to them extensively. We are going to continue to discuss them with them.

Mr. ROTH. What changes, if any, have you been proposing to the trade provisions of the Farm Bill? In other words, give us some of your thoughts about the Farm Bill and its trade provisions. Because I know you are not in favor of them, are you?

Mr. SCHUMACHER. In the Freedom—

Mr. ROTH. The Farm Bill.

Mr. SCHUMACHER. Well, I am going to speak—the President has put forward in the Blue Book some guidance for the consideration of the Congress. Some of the concerns coming out of the House certainly, on the trade side, cause some concerns to me, and the “Freedom to Farm” and “Freedom to Milk” certainly have, I think, deleterious effects on the American farmer. But I do not want to get too involved in that and stick to the trade side today.

Mr. ROTH. Yes, it is important though because our hearing today is focusing on the trade portion of the Farm Bill. I love that chart you have, but I just want to know how realistic it is and what we have to do to meet those goals.

Mr. SCHUMACHER. One thing on the trade side, this is not the time to ratchet down. Some of the bills that I have seen coming forward in some draft language would reduce the MPP program significantly, would have deleterious effects on the EEP Program, and I am not sure how it would affect clearly the GSM-102/103 programs.

So trade, I think it is very important that we have a strong trade title that would enable us to compete vigorously with our competitors overseas. This is not the time to remove the international safety net as the Congress considers the downsizing of our domestic safety net. It is of great concern.

Mr. ROTH. Well, I thank you very much, Mr. Schumacher.

I am going to call on Mr. Gejdenson because he is going to be going over to the floor in just a bit to speak on Medicare. He is voting for Medicare today to save it and to preserve it for our senior citizens but that is another issue.

Mr. GEJDENSON. And I am hoping you will be there to join me—

Mr. ROTH. And so I am going to ask Mr. Gejdenson if he has a question he would like to ask.

Mr. GEJDENSON. Thank you.

I think maybe what we should do is look about making this a State program and give the States block grants. That seems to be the approach everything goes to this year in Washington. We could cut it by 50 percent and give the money to the States and then hope they do a better job managing it. We could have 50 State programs on support. But I do not believe in that approach so I am not going to offer that.

Let me ask you a few questions though. One of the programs that is sometimes hard to defend certainly with the average citizen and even for those of us who are here is the Market Promotion Program. I mean how do you argue that you are leveraging McDonald's, which appears to have more money than the Federal Government at some times, to enter markets? McDonald's is a very large, very mature company. Tremendous resources. The government waving some money in them may reduce their cost of business somewhere, but they are not going to enter a market until they are ready to do so.

So I guess my first question is, should we be in this business to be giving McDonald's a million dollars per year to open new markets? Are they not going to do that anyway?

Mr. SCHUMACHER. Good question. What we have been doing is giving preference to medium and small companies and cooperatives in recent years, as mandated by the Congress in the 1993 Budget Act. A very important issue. The bigger companies are getting less and less a percentage of the branded part of these programs.

One of the fastest growing markets overseas is what I call hotel/restaurant institutions, or fast food. And this is where some companies have used some of the fast food companies as a pass-through to market their beef, chicken and pork, and that is where some of the work has been done with some of our fast food organizations and very successfully.

Mr. GEJDENSON. But how does a taxpayer dollar—I mean the 1992 study said that the top 50 firms got about a million bucks a piece. What is the average today of the top 50?

Mr. SCHUMACHER. I think we are looking at only about 16 percent of the program goes to firms that do not meet the SBA definition.

Mr. ROTH. Would the gentleman yield on that point?

Mr. GEJDENSON. I would be happy to yield.

Mr. ROTH. I thank the gentleman for yielding.

It seems to me that if a company, whether it is McDonald's or any other company, uses MPP, they have to use all American products. For example, all of the beef sold in the hamburger from McDonald's has to come from domestic producers in the United States.

Is that not true?

Mr. SCHUMACHER. That is correct.

Mr. ROTH. So the taxpayer and the American leadership should be delighted if any company—whether it is McDonald's or any

other company—falls under MPP because it ensures that domestic products are being sold overseas.

Mr. GEJDENSON. Reclaiming my time from my good friend and chairman, I am not sure that the taxpayers are in a position to provide food stamps for McDonald's. I mean if we are sitting here in as tough a budget strait as we think we are, I think we have to rethink the economics of large corporations' advertising budgets and whether or not giving them a million bucks helps anybody.

And I am quite serious about that. I mean it is hard for me to figure that the Federal Government giving McDonald's or any of these other large corporations any money will affect their decision-making. They are going to sit down and take a look at where they think they have a market they can enter, and they are going to go after it. And if McDonald's is going to wait for the Federal Government to process a million-dollar grant to get them to enter this market, you know, then Burger King will take the market. So I think that it is a program that we ought to rethink.

Let me ask you a couple of other quick questions.

Do you support the Unified Budget?

Mr. SCHUMACHER. On the Trade Policy Bill? Well, I have testified before and it is very important that we have agriculture, as we have said on the charts on the left, to be very important to keep us in the picture particularly as we have a significant share of our agricultural GDP going overseas. So I am very keen—we work very closely with the TPCC, but we feel that we have a good program. We are going to continue to work very hard and coordinate very carefully on this issue.

Mr. GEJDENSON. Was that a yes or a no?

Mr. SCHUMACHER. We are working very closely with Secretary Brown on that issue.

Mr. GEJDENSON. I guess that does not fit in either of those categories.

Let me say again that I am not for doing away with agricultural exports and I would again commend both of my colleagues who have States that have significant agricultural exports, but do not look at the world in such a narrow manner to say that they do not have many manufactured exports so they are against the manufacture exports. I think these two gentlemen here are serious about their review of export promotion and try to do what is right.

There are Members in this Congress who look around and say "The only thing I export from my district is a grain or some other agricultural commodity, so I am for agricultural subsidies and I am against manufactured subsidies."

You know, the danger there may be that those of us who come from States that are primarily manufacturing States may have to decide there is a war about this, and I do not think that is helpful to anybody but I think that to see people want to wipe out the Commerce Department and cut manufactured exports and the very same people not talk about touching agricultural exports I think is a real problem.

Did the GAO find the total current exposure of the Export Credit Guarantees to be about \$12 billion? Is that correct?

Mr. GOLDTHWAIT. That is roughly correct.

Mr. GEJDENSON. And is about \$5.6 billion of that in jeopardy?

Mr. GOLDTHWAIT. No.

Mr. GEJDENSON. Restructure being reviewed behind?

Mr. GOLDTHWAIT. Some portion—

Mr. GEJDENSON. You are a banker. Would about \$5.6 billion, \$5 billion or better, be money that you are worried about?

Mr. GOLDTHWAIT. The figure, the \$5.6 billion you are referring to is what has been rescheduled in the context of the Paris Club. We do not believe that that funding is in danger. And as of the moment, nearly all of the payments on that rescheduled debt are current.

Mr. GEJDENSON. In the rescheduled debt, how much do we lose as compared to the original?

Mr. GOLDTHWAIT. We do not lose anything as long as the debt is part of the Paris Club rescheduling because we continue to apply interest at a fraction above the government's borrowing rate.

Mr. GEJDENSON. What would the cost be under credit reform of these export guarantees?

Mr. GOLDTHWAIT. The budget subsidy estimate that we calculate for the Credit Guarantee Program on an annual basis is roughly \$325 million to \$350 million.

Mr. GEJDENSON. And what loss rate do you base that on?

Mr. GOLDTHWAIT. We base that on a formula which is the result of an inter-agency determination, the so-called Icarus process where we in effect establish certain letter grades for countries and the budget subsidy that you apply results from using those letter grades and an anticipated allocation by country of the credit guarantees that you plan to make available in a fiscal year.

Mr. GEJDENSON. And so you would be in favor of having an Export Credit Guarantee program be covered in credit reform?

Mr. GOLDTHWAIT. The Credit Guarantee Program was in fact one of the programs that was in existence at the time the Credit Reform Act was passed. So that in effect we do not need to appropriate a credit subsidy for it but we calculate a budget subsidy estimate and any eventual losses are covered by the Commodity Credit Corporation.

We are quite satisfied with the provisions under the law as it currently stands.

Mr. GEJDENSON. And can you tell me why there has not been a unified budget as required by law for U.S. export promotion programs? Is somebody giving you instructions not to do this?

Mr. SCHUMACHER. I will come back to you on that one, Congressman.

Mr. GEJDENSON. Thank you.

Mr. ROTH. Thank you, Mr. Gejdenson, for your excellent questions.

I just want to make this comment. I am very much in favor of MPP and do not view it as food stamps for McDonald's. John Schilde, one of the four greatest export experts in America, once said, "It's very great and very good for the potato farmers in Antigo," and I consider him to be a top expert in the area of MPP.

So I would like to ask Mr. Bereuter if he has some questions for our witness.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. Schumacher, Mr. Goldthwait, thank you very much for your testimony and thank you for the excellent job that you do in discharging your responsibilities.

I have a couple of questions. The first relates to the Cooperator Program. Some people have proposed that as a part of the 1995 Farm Bill, we should line item fund the Cooperator Program. That would put pressure obviously on the Foreign Agricultural Service in a budgetary sense.

What would be the Administration's position on that proposal?

Mr. SCHUMACHER. We just received that proposal a few days ago and it was 12 pages of detailed work, so we are looking at that very carefully. As the Administration, we do not have a position on that, but I certainly feel the program was run very well over the last 40 years and certainly the last few years, and "if it ain't broke, don't fix it."

Mr. BEREUTER. Let me walk through that perhaps to stimulate your thinking on this or to stimulate your answers at least and say that it would seem on the surface to me that one of the things it would do would be to leverage more private sector—or to say non-government funding, because the cooperators would, in fact, be making a larger contribution in this respect.

Does that follow?

Mr. SCHUMACHER. It depends. They do make a contribution now, and, again, we just received the proposals, so what I would like to do is maybe come back and visit with you or give you some more written response to that as we further digest how, as an Administration, we would respond to those proposals.

Mr. BEREUTER. All right.

Mr. SCHUMACHER. Again, I sure say the cooperators have done a marvelous job. And, in large part, responsible for the successes we have seen on the charts and in rural America. They have been at it 40 years.

I have talked to the New Zealand ambassador a few weeks ago and he was saying, you know, the Meat Export Federation—I think MEF is one of our key cooperators to be testifying here shortly—and he said, "Gus, you know, we kind of missed out. Your MEF was in Japan 10, 12 years ago. You were still looking at Europe. And all of a sudden you were there building up the case for the American meats in Japan when that opened up with Secretary Ling with those agreements in the late 1980's. You were very well positioned to take advantage of that and we have done very, very well at \$2.5 billion worth of beef alone. Pork is now expanding."

So an example of the success of our cooperators.

Mr. BEREUTER. I think the cooperators are doing an exceptionally fine job and they are responsible for a significant part of our success story at this point. But there are some people, not critics in a negative sense, but some people who believe that there could be greater efficiencies if we would have more cooperation, even co-location, of a number of our cooperators in major market, export market countries.

On the surface, that seems like a reasonable suggestion. I do believe that when they operate so independently the overhead expenses must be quite high, especially in some of those countries, as in the case of Japan, where just doing business for any kind of

an operation is incredibly expensive by American standards today, and that is becoming the case in some parts of Southeast Asia as well, and certainly it is the case in Europe.

Do you have any thoughts about that?

Mr. SCHUMACHER. It is a very good suggestion. We are looking at this carefully. In the very near future, we will be coming forward to Congress with a long-term agricultural trade strategy and we will be discussing that with our cooperators in terms of working with them on improvements both in efficiency and perhaps co-location, as we look at our Agricultural Trade Offices, particularly as we open up a bit more in South China. But this is all in review. I will be meeting with them in Baltimore several days in November and these points will be discussed.

Mr. BEREUTER. I wish you could give me, or perhaps this committee, through the Chairman, a report on the serious examination of this. It would be very helpful to us.

I do think you should expect, human nature being what it is, that there will be some resistance and reluctance to move toward those kinds of operations. It reduced to some extent their independence, but look seriously at the benefits versus the costs, to see if we cannot not only leverage our resources further, but also get better utilization out of the funds that we do have available.

That is just my suggestion, and I would appreciate your examination of the issue.

Next I wanted to move to the Green Box spending issue. Well, we expect the Europeans to respond to the Uruguay Round Export Subsidy reductions by increasing their Green Box spending. That is my expectation.

What is the USDA's long-term goals or what are its strategies and tactics for attempting to counter that expected increase in the EU Green Box expenditures? Perhaps you would want to go to other countries, but the EU is our prime concern, I believe.

Mr. SCHUMACHER. Yes, the European Union, our good friends in Australia and New Zealand, and particularly our colleagues in Canada are all being much more aggressive in their Green Box activities.

As you know, Congress does provide us the budget and we hope that the Speaker will release the Agriculture Appropriations, so that gets forward, so we can move forward with some of these Green Box activities. They are being held up right now. So we can get that up. Hopefully the President will sign it. That limits us to \$110 million.

As I mentioned in my testimony, you can look at all of our competitors, about \$660 million. So we are working very closely, you know, with our private sector. I think one of the advantages we have in this country is extraordinary close cooperation over 40 years between the Foreign Agricultural Service and the private sector. One example. I was meeting with the Nebraskan corn growers a few months ago and they are now contributing to the Meat Export Federation because they see the more value-added we get out of our poultry and turkey, beef and our pork, the more that they will sell. We sell something on the order of 10 to 12, maybe up to 15 million tons of grain through value-added meat. They recognize

that and they are working closely between the corn growers and the Meat Export Federation in the cooperative movement.

So we are going to be working in terms of other programs to promote this overseas if we are limited by the \$110 million.

We are also going to work very hard in reallocating resources to our top markets in our own agency to get the best bang for the buck in a business sense, so that our own people can work with the private sector to open up some of these new markets, particularly on trade policy issues in Korea. We think it is a bigger market there, but there are some barriers on Pusan to releasing our product on time. There are some problems in Indonesia in getting ports up and ready. These are all the things we have been working on in terms of reallocating resources, working more with the private sector, and being efficient and nimble in terms of how we allocate these resources.

Mr. BEREUTER. I am glad you brought up that cooperative relationship between those two commodity groups in my State. It is a commendable effort. It makes sense.

In fact, tomorrow both those organizations will be testifying before a joint Subcommittee hearing that Congressman Barrett who chairs the key Farm Subcommittee. My colleague from western Nebraska and myself, in chairing the Asia-Pacific Subcommittee. We are looking specifically at the agricultural and agri business exports in our State.

I wanted to mention to you that I am quite familiar with the problems we are having with non-tariff barriers in Korea, specifically, pork. I discussed those issues with their Trade Ministry in August. We are having some followup communication going back and forth.

And I find that since I am the chairman of that subcommittee, I seem to get better results from the Koreans. We have had to go in and rescue Mars candy bar already, which has no relationship to my district, but it is an important export and they were really doing some extraordinary things to keep our candy out of their markets.

I wonder what you think about the proposal to transfer our EEP savings to the Market Promotion Program and the Cooperator Program?

Mr. SCHUMACHER. As I understand, there is a proposal being considered before the Congress called the AIME proposal, that would, if passed, give the Secretary of Agriculture more flexibility that if we did not use—if this is the same proposal, Congressman—if it was not necessary to use the EEP, SOAP or COAP, those could be reallocated to Green Box proposals. This was, as you know, not in the President's Blue Book guidance. It certainly would provide a great deal of flexibility to the Department of Agriculture to meet some of these new and different markets that are emerging all over the world.

We have it under detailed review in our department as we speak.

Mr. BEREUTER. Well, you could put me down as a supporter. I would like to be helpful in that. I hope that the Administration reaches the conclusion that that is a good idea.

Mr. SCHUMACHER. It certainly would give us a lot of flexibility to meet some of these changing markets.

Mr. BEREUTER. Finally, you mentioned the Facilities Credit Program, and I am not sure what your reference was to it. Is it a new effort on your part or an enhanced effort?

Mr. SCHUMACHER. Chris.

Mr. GOLDTHWAIT. Congressman Bereuter, this is a program which was actually established in the 1990 Farm Bill, but because of some restrictions that were placed on it in that legislation, up until now we have not been able to implement it.

In our proposals for the 1995 Farm Bill, we suggested modifying the designation of appropriate countries where these facilities guarantees could be given.

Mr. BEREUTER. Would this be things like grain handling facilities?

Mr. GOLDTHWAIT. Yes.

Mr. BEREUTER. Export facilities in Africa or wherever?

Mr. GOLDTHWAIT. Exactly. And we have suggested changing the designated countries from emerging democracies to emerging markets, which we think is more appropriate for our efforts. And we would, in effect, then identify areas where the development of facilities would speed the growth of imports from the United States of agricultural commodities. And we would provide a credit guarantee to cover the American share of content for the construction of those facilities.

Mr. BEREUTER. Would those facilities be host-country owned or would they be American-owned, or is there any limitation?

Mr. GOLDTHWAIT. There is no limitation in the legislation. One of the most fruitful opportunities would likely be if they were undertaken by joint ventures that included American partners, because those kinds of partnerships would tend to mean that the sourcing of the commodity that eventually flowed through the facilities would come out of the United States.

Mr. BEREUTER. Is this something like an international farm-to-market road program?

Mr. GOLDTHWAIT. An international—

Mr. BEREUTER. Farm-to-market road program?

Mr. GOLDTHWAIT. You might call it that. We think that one of the biggest obstacles, particularly in the developing countries, where the market demand is growing most quickly, is the handling facilities. And if we can help them develop those, the growth that we see in our charts might tick up a percent or two a year.

Mr. BEREUTER. Would they be restricted to receiving American imports?

Mr. GOLDTHWAIT. The legislation says that we should use this authority only where it creates a proclivity to use products out of the United States. So we would have to pick and choose carefully and we intend to include our private sector heavily in advising us through one of our advisory committees on where this is likely to be the case.

Mr. BEREUTER. Finally has not AID had a program to do something similar?

Mr. GOLDTHWAIT. They have had a similar program; however, with one or two exceptions it has not been so heavily oriented toward market development. This is a specifically market development program.

Mr. BEREUTER. Thank you very much. I would like to continue to have information about the progress of that effort.

Mr. GOLDTHWAIT. Very well.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. ROTH. I want to thank you, Mr. Bereuter.

And we very much appreciate your testimony and give our best to Alan Tracy. Thank you.

Mr. SCHUMACHER. He was so very complimentary about the work that MPP has been doing with tribor foods in Green Bay. Apparently they are now private labeling into Mexico and Japan dairy products. He spoke to me this morning when I mentioned I was going to be testifying.

Mr. ROTH. That is why I am so excited about what is taking place in our agricultural exports. We are setting some new trails here, and I am sure Mr. Bereuter and Mr. Gejdenson share my excitement.

Mr. SCHUMACHER. Thank you, Mr. Chairman. Thank you, Congressmen.

Mr. ROTH. Thank you.

Our second panel is going to be Robert Kohlmeyer, a senior vice president of World Perspectives, Incorporated.

Mr. Kohlmeyer, it is good to have you with us.

Mr. Stewart Huber, president of Farmer's Union Milk Marketing Cooperative.

Mr. Eugene Bovee, senior vice president of CoBank, ACB.

And Ron Willis, director of International Programs, U.S. Meat Export Federation.

Gentlemen, why don't we move on. Please feel free to summarize some of your statements and give us the highlights. I think we will start with the panel with Robert Kohlmeyer.

STATEMENT OF ROBERT KOHLMAYER, SENIOR VICE PRESIDENT, WORLD PERSPECTIVES, INC.

Mr. KOHLMAYER. Thank you, Mr. Chairman, and Members of the Subcommittee.

I am Robert Kohlmeyer, executive vice president of the World Perspectives, Incorporated. WPI is a private information analytic and consulting company specializing in agriculture and trade policy.

For 15 years WPI has provided information, analysis, and strategic consulting in these and related areas to clients which include U.S. and overseas trading companies, processors, financial institutions, and government agencies both here and abroad.

Before joining WPI 5 years ago, I had spent about 36 years in hands-on agricultural commodity merchandising. For a majority of that time, my principal activities involved grain export markets. So I am pleased to have this opportunity to share some views with you on U.S. agricultural export programs.

In my submitted testimony, I concentrated on two programs administered by the U.S. Department of Agriculture, namely, the Export Enhancement Program of export subsidies known widely by the acronym EEP. And the program of Export Credit Guarantees known as GSM.

In the interest of oral brevity, I would like, with your permission, sir, to concentrate most on the Export Enhancement Program because I know that others on this panel will be speaking about the GSM program.

The EEP was created in 1985, as Mr. Schumacher indicated, and was authorized in the Omnibus Farm legislation of that year. It was reauthorized in the 1990 Farm Bill to combat and discourage so-called unfair trade practices.

It seems to me that export subsidies, and especially those applied to agricultural commodities and products, have two inherent characteristics. First, although they are commonly rationalized as assistance for international trade and as trade policy instruments, export subsidies are invariably created for domestic political purposes and to offset the effects of other domestic policies.

Second, export subsidies are, by definition, economic distortions. They mask or distort economic signals constantly being sent to buyers and sellers, including agricultural producers by the market. They often cause poor economic decisions by market participants, and, yes, even by governments.

The questionable basis for agricultural export subsidies was recognized when for the first time in international trade negotiations agriculture was made a key part of the Uruguay Round.

Signatories to the new World Trade Organization (WTO), including both the United States and the European Union, have agreed to reduce the volume of agricultural export subsidies over a 6-year period by 21 percent and reduce expenditures for such subsidies over the same period by 36 percent.

But it must also be recognized that the Uruguay Round Agreement has served to legitimize the use of export subsidies within those quantitative and budget limitus. In other words, we can no longer really complain that the European Union uses unfair export subsidies.

In the grain trade, there is an old saying, "The market is bigger than thee and me." The truth of this is periodically demonstrated to all participants, including governments. During the past several months, market circumstances have clearly demonstrated that continued use of export subsidies for bulk commodities in the face of historically tight levels of supply relative to the demand for those supplies, was both unnecessary and unwise.

To their credit, both USDA and the European Union's commission recognized this, and in early summer both stopped the use of export subsidies for bulk grains.

More than a year ago, USDA stopped subsidizing export sales of edible oils, such as soy bean oil and cottonseed oil, in response to similar tightness in world supplies and a growing world demand.

As a result, and without intending to, the United States has been engaged in an experiment of sorts. We have been finding out what life without EEP is really like. So far in the first one-third of the 1995/96 marketing year, a year in which total world trade in wheat had been expected to decline below last year's level, U.S. wheat export commitments have actually increased by more than a million tons over the same period of a year ago.

The biggest impact from the cessation of barley export subsidies by the European Union and the United States concerns price. Bar-

ley values are now at a premium to corn in world markets. When the United States and the EU engaged in a subsidy competition over barley markets, for years world barley prices were driven to discounts below corn.

U.S. soy bean oil exports without subsidies are the real success story. During a full marketing year, without export subsidies, U.S. soy bean oil exports have come close to doubling those of the previous year.

One of the most distortive features of the EEP program has been its targeted nature. Export subsidies have been available for some destinations but not for others. Some destinations were excluded because it was perceived that the European Union was not a competitor for that business. And a number of destinations were excluded by foreign policy considerations or because so-called non-subsidizing competitors put enough high-level pressure on the U.S. Government to keep export subsidies away from some of their favorite markets.

As a result, we often saw USDA pay large export subsidies for U.S. wheat sales in the European Union's backyard, North Africa, for example, while untargeted markets in our own backyard, Latin America, for example, were donated to the Canadians, the Argentines, the Australians, and even the European Union.

Currently, with the EEP to contend with, U.S. exporters are free to pursue business when and where it is available and use the strengths of the U.S. marketing system, our geographic advantages, and export capacity without being tied down to targeting and quantitative restrictions inherent in the EEP. The results speak for themselves, suggesting that life without EEP is just fine.

In 1993, we at WPI, put forward a proposal for a new subsidy program based on our conclusion that limited export subsidies would survive and be legitimized by the Uruguay Round, but that their nature and objectives must change. No longer can they be rationalized by citing others' unfair trade practices since we have now agreed to a continuation of those practices. Instead, they should be converted to market development purposes. And since the amounts of subsidies allowed are limited, ways must be found to maximize the benefits from this shrinking resource if it is decided to put export subsidies to use again.

We are pleased to note that USDA is presently considering some of the points we raised as it undergoes its current effort to adapt a subsidy program to these new realities.

We urge that a new program give exporters enough flexibilities so that they can compete effectively with their European counterparts and others. We urge that the program be designed to encourage the greatest volume of exports for a limited amount of resources.

Most of all, we hope that the use of an export subsidy program for bulk commodities can be avoided.

Mr. Chairman, thank you. I would be happy to respond to any questions.

[The prepared statement of Mr. Kohlmeyer appears in the appendix.]

Mr. ROTH. Thank you very much, Mr. Kohlmeyer, for your testimony and for summarizing a major portion of it.

I think what we will do is we will hear from all of our panelists and then we will go some of the questions.

Next we will ask Mr. Stewart Huber for his testimony.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMER'S UNION MILK MARKETING COOPERATIVE

Mr. HUBER. Mr. Chairman, Members of the Subcommittee, my name is Stewart Huber. I am a northeastern Wisconsin dairy farmer. I also serve as president of the Farmer's Union Milk Marketing Cooperative.

I appear here today on behalf of the nearly 10,000 midwest dairy farm families who belong to that cooperative and are concerned how the trade provisions of the 1995 Farm Bill will affect their livelihoods.

We thank you for holding this timely hearing and affording us an opportunity to present our views.

Appearing with me is Mr. Tom May of Trugman-Nash, Incorporated, who also is founding member of the Dairy Trade Coalition, DTC, a coalition representing a broad spectrum of interests in dairy trade matters. Mr. May is prepared to serve as a technical support person on dairy trade portions of my testimony.

Mr. Chairman, international trade rules are now front-burner concerns of U.S. dairy farmers. We agree with your assessment that U.S. dairy farmers were dealt a bad hand in the Uruguay Round of the GATT negotiations, and we applaud your vote against that accord.

While some commodities may have been winners, dairy was a clear loser as our negotiators gave away our Section 22 productions, dramatically increased minimum access requirements, reduced our Dairy Export Incentive Program, and completely ignored the predatory practices of State trading entities.

Mr. Chairman, we need to protect against unfair trading practices without and within our borders. These goals are more important than ever given the stark new realities of the post-GATT and NAFTA world, the loss of Section 22, increased Federal budget pressures, the looming threat of dairy deregulation and other challenges.

We urge Congress and the Administration to work together in a bipartisan effort to develop progressive new legislation in the 1995 Farm Bill to improve family farm income and stabilize dairy markets.

Considering these new realities, we recommend the following: If Congress sees fit to fund any of the programs, market promotion programs, market development programs, GSM programs, we believe that dairy should be granted the highest priority access to those funds. Until now, dairy has not availed itself or has been shut out of these programs.

We believe, in addition, that the Dairy Export Incentive Program, DEIP, must be fully funded at the maximum allowable levels through at least the year 2000 as promised by the Administration and negotiated under the Uruguay Round. The DEIP program should be reformed by making it country and product non-specific and removing it from the inter-agency review process.

At this point, I should make a special note of the fact that the U.S. dairy industry, which includes producers, processors, traders, needs the DEIP to ease the way for our dairy products into new markets. The United States agreed to reductions of 21 percent in export product volume and 36 percent in export subsidy value over the 6-year implementation period of the Uruguay Round. The Congress and the Administration must not be bullied and badgered by foreign delegations into further reducing our DEIP program if our industry is to have any hope of penetrating new markets around the world.

We fully expect our congressional representatives to see to it that the DEIP program is utilized to the fullest extent allowable under GATT, and as utilized in those countries where we can get the biggest bang for the buck.

This was agreed to by the GATT negotiators and it would be foolish not to fully utilize the one tool available to the U.S. industry for export.

But full funding of the DEIP program is not enough. It is a fiction to suggest that the American dairy industry enters in the post-GATT world with opportunity equal to that of other exporting countries. Other countries can out-subsidize us, and the activities of STE (State trading entities), force us to compete with vertical monopolies able to grab and control markets.

This is not a level playing field and is not free nor fair trade. The role of State trading entities will increase given the interest which China, Russia and the Ukraine have expressed in joining the WTO. The matter of STEs is of a particular concern to American agriculture, and dairy specifically, because the majority of STEs are agricultural in nature, regarding products such as grains and cereals, dairy products, beef, veal, oil, oil seeds, pork, potatoes, wool, fruits, poultry and eggs and on and on.

Mr. Chairman, at this time I want again to thank you not only for holding this hearing, but for your promise to hold a special hearing on the issue of STEs.

I look forward to the opportunity to appear before you at that time, because the Dairy Trade Coalition, of which FUMMC is a member, has been and continues to be engaged in extensive work and dialog with our counterparts around the world on this very sensitive issue which was left unaddressed by the GATT negotiators.

I now should like to turn our attention to other GATT legal considerations, which can be easily implemented by the U.S. Department of Agriculture in order to assure the fair play is the order of the day within our borders.

The Committee of Agriculture has included in Section 1215 of its Reconciliation legislation a provision to codify and improve certain regulatory requirements governing licensees for the import of dairy products. Section 1215 will provide the Secretary of Agriculture with the tools necessary to provide for orderly marketing of dairy products consistent with the Secretary's obligations under current law to operate other Department of Agriculture programs including the Dairy Price Support program.

I am providing you with a summary which describes in more detail what Section 1215 will and will not do. I urge you to support

these important improvements in the Secretary of Agriculture's authority.

Mr. Chairman, commerce and the business of commerce, require timely actions if a nation's economic patrimony is to be vital to its citizens. You, your subcommittee Members, and this Congress have an opportunity to mitigate the harm visited upon the domestic dairy industry by our GATT negotiators.

Again, thank you for the opportunity to appear here today.

[The prepared statement of Mr. Huber appears in the appendix.]

Mr. ROTH. Thank you, Mr. Huber. We appreciate your tireless efforts and continued support of other dairy farmers in this area. We want to make sure that dairy is treated fairly, and we are going to see to it that it is.

Mr. HUBER. Thank you.

Mr. ROTH. We are going to ask now Mr. Bovee for his testimony. We will then move to Mr. Willis and follow with questions.

Mr. Bovee.

STATEMENT OF EUGENE BOVEE, SENIOR VICE PRESIDENT, CO BANK, ACB

Mr. BOVEE. Mr. Chairman, Members of the Committee, my name is Gene Bovee. I am a senior vice president for CoBank's International Banking Group.

CoBank is part of the Farm Credit System and provides financial services to farmer-owned cooperatives, rural utility systems, and facilitates the export of U.S. agricultural products. The \$17 billion in assets and customers doing business throughout rural America, we are keenly interested in Federal policy issues that affect agricultural exports in rural communities.

I am pleased to have the opportunity to testify before you today on the current status of the GSM programs, CoBank's experience therewith, and recommendations for improvements.

We are all affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete therein.

Commodity Credit Corporation's GSM Export Credit Guarantee Programs, have proven to be an efficient and cost-effective means of support for the export of U.S. agricultural commodities and products. The cooperation demonstrated by the respective parties to these transactions is also an example of how public and private entities can productively work together. It is this type of productivity that will be required to be competitive in the future.

This is an opportune time to recognize the appropriate purpose of these programs and to provide certain enhancements to make them more effective in a changing marketplace.

The purpose of facilitating and increasing the export of U.S. agricultural commodities and products on essentially commercial terms needs to be reemphasized. Focus on this basic purpose is critical to the long-term health of U.S. agriculture and its continued competitive position.

We at CoBank believe the key to many U.S. agricultural products remaining competitive in world markets will continue to be the successful implementation of the Export Credit Guarantee Programs.

Enhancements to the programs are needed to provide increased flexibility to meet the needs of the changing global marketplace. Such enhancements should come in the form of changes to the statute, regulations and practices to streamline and simplify the overall process.

This can be done by expanding payment methods to include sight letters of credit, deferred payment terms, and include the use of bank guarantees.

The terms of financing should be flexible enough to accommodate a particular transaction from sight or 1 day out to 6 to 7 years, and any maturity in between. The fee structure should be designed to reflect the tenor of financing, as well as the other risk factors involved.

The administration of the program needs to be more responsive to meet the changing needs of buyers and sellers and to take advantage of market opportunities. The concept of regional programs has great promise and should be continued and expanded perhaps to include the concept of global programs.

Specific statutory changes are needed to relieve the limitations imposed by current interpretation of the creditworthiness requirements and recognize the realities of the marketplace, support the purpose of the program, and protect foreign markets.

Additionally, language changes are needed to enable sales of value-added or further-processed products to be covered and not excluded because of unrealistic requirements of U.S. content.

There has been an effort underway within the CCC to evaluate existing programs and the need for new programs as well as approaches to support agricultural export transactions. The CCC should be encouraged and supported whenever possible to provide more flexibility and better linkage of guarantee programs to commercial transactions.

A reevaluation of the real potential for ultimate loss in public sector versus private sector programs seems to be needed along with the reaffirmation of the purpose and objective of the GSM and other CCC programs which should be primarily conducted to promote and support U.S. exports and maintain and expand export markets.

A commitment to the purpose of the program, along with minor enhancements, contained in my written testimony to provide flexibility to adjust competitive commercial terms of world trade would improve the effectiveness of the GSM programs. Increased utilization of the GSM programs is positive for U.S. agriculture and many related industries as well as a general balance of trade.

I appreciate the opportunity to appear here today and would be pleased to answer any question that you may have.

[The prepared statement of Mr. Bovee appears in the appendix.]

Mr. ROTH. Mr. Bovee, we are delighted to have you with our committee. Thank you for sharing that testimony with us.

We will now move to Mr. Ron Willis for his testimony.

STATEMENT OF RON WILLIS, DIRECTOR OF INTERNATIONAL PROGRAMS, U.S. MEAT EXPORT FEDERATION

Mr. WILLIS. Thank you, Mr. Chairman. I am pleased to be here this afternoon to talk about USDA's Market Promotion Program. I

am here today as the Director of International Programs for the U.S. Meat Export Federation, a national trade association with responsibility for developing foreign markets for U.S. red meat products.

The U.S. Meat Export Federation has been part of the USDA Co-operator Program since 1976. Our charge from the outset has been crystal clear; to increase demand for U.S. red meat products in foreign markets. One hundred percent of our energy is devoted to exports.

The Market Promotion Program and Foreign Market Development Program have given the American red meat industry the critical mass necessary to advance in foreign markets. These export achievements continue to grow as do their contributions to the American economy in jobs, personal incomes and additional tax revenues.

According to a Northern Colorado University study, U.S. red meat exports in 1993 were responsible for more than 240,000 U.S. jobs. CF Resources, Inc., an independent research firm in Denver, Colorado, reports that U.S. red meat exports in 1994 added \$84 per head to the value of a fed steer and more than \$8 per head to the value of slaughter hogs.

Corn and soy bean producers benefit as well, with \$505 million in corn and soy beans exported in 1994 in the form of high-quality value-added U.S. red meat products.

The U.S. Meat Export Federation is very proud of its track record in foreign markets. By the same token, our export programs can be improved. And we continue to strive through a very rigorous evaluation system to correct our mistakes and improve each year.

The same we think can be said of the MPP program. This is an excellent program that has delivered tremendous results for American agriculture, rural America, and the U.S. economy.

Looking ahead to the new Farm Bill, USMEF envisions a more focused export initiative under USDA's Foreign Agricultural Service to reflect the new trade realities under the World Trade Organization. This new initiative could easily come from today's market promotion and foreign market development programs.

These initiatives are listed in my statement, so I will not discuss them at this time.

More than at any time in history, the future of American agriculture rests in international markets. It is no coincidence that GATT negotiators, after agreeing to reduce agricultural subsidies, created a special provision under the WTO for GATT-legal Green Box programs. Like MPP and FMD, these programs are intended to create new markets for agricultural products without artificially distorting trade flows or masking naturally occurring market factors.

The USMEF joins with the National Cattlemen's Association, the National Pork Producers Council, and the other members of the Meat Industry Trade Policy Council in supporting the use of USDA funds saved from reductions in U.S. program subsidies to increase revenues for Green Box marketing programs for U.S. agricultural products.

It is imperative that the U.S. Government continue its one-two punch in opening foreign markets and partnering with the private

sector to secure market share once market access has been achieved.

There are a number of reasons why the red meat sector has been able to use the MPP program so effectively over the years. I will not go into them now but would draw your attention to this section in my statement.

Mr. Chairman, we are on the threshold of a new era in international trade and domestic foreign programs. We recognize the realities of the marketplace and the need to do more, not less in the trade arena. Now is the time to strengthen the partnership between USDA and the private sector if we are to achieve our full export potential.

On behalf of the MPP participants and the U.S. red meat industry, I ask that you support the MPP program in the 1995 Farm Bill at no less than the current level of \$110 million per year.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions. Thank you.

[The prepared statement of Mr. Willis appears in the appendix.]

Mr. ROTH. Thank you very much, Mr. Willis. We much appreciate your testimony as well.

I was just curious. You mentioned MPP today and placed a strong emphasis on it in your expanded written testimony. I was just wondering what your reaction was when you heard someone say that MPP is food stamps for McDonald's.

Mr. WILLIS. Not much, sir. We used McDonald's at one point several years ago. And the reason that we worked with McDonald's is because they are a recognized symbol of American products. One of the problems that McDonald's runs into in a foreign market is that they do not always buy U.S. products. Most of the time they will buy local because that is what the foreign customer there is accustomed to eating.

What we did in conjunction with the U.S.A. Poultry and Egg Export Council was to do place mats where we paid a very small portion of the cost of the place mat on the tray that had our logo and the U.S.A. Poultry and Egg Export Council logo to ensure that McDonald's bought U.S. products. We were trying to launch—in our case, it was a breakfast meat, it was a sausage. And through the recognition of McDonald's, coupled with the fact that they had to buy U.S. products to do this promotion, we felt it was the most effective use of the limited resources that we had at the time to introduce this product into the marketplace. And it was very successful.

Mr. ROTH. We are going to be making our recommendations now, so I would like to ask all of you what changes would you like to see this committee include in our report on legislation on these programs?

We will start with Mr. Huber, and then we will ask Mr. Willis and move down the line.

Mr. HUBER. Well, we certainly should like to have included a careful review and addressing of the State trading entity problem. We think that this is going to be probably the most important problem that American agriculture is going to face as we approach the 21st century, and I would think that that would be our highest priority item to address.

Mr. ROTH. Would any of the other panelists like to highlight anything?

Yes, Mr. Bovee.

Mr. BOVEE. We believe that—and I am going to address my comments specifically to the Export Credit Guarantee Programs—that there should be language, and this was brought up I believe by Mr. Goldthwait—that promotes value-added exports.

Some of the difficulties is that exports have to go through a price review, and they have to look for what the value of the product is. In certain value-added commodities, that is not the easiest thing to do.

In addition, we have commodities that may contain sugar. The exporter has to make a certification as to whether the product has any foreign content or not. You do not know where that sugar came from.

We have a particular customer who has developed a product for Russia but includes a number of spices in it, most of which come from foreign markets. To determine the cost and how you relate what a fair value of that is difficult. So the way the statute is written right now makes it difficult for that.

In addition, we, in our bank, have received many requests to try to find financing for facilities, which Mr. Goldthwait also mentioned, and we believe that the change in the statute that he talked about, i.e., changing the definition of who can receive those from emerging democracies to emerging markets, would be very beneficial. The requests that we have seen have come from countries who already have been approved for GSM programs, so that we feel there is a fit there to not only provide that service but also that you have the assurance of U.S. agricultural commodities being an important part of that market.

We also would support in the statute modifying the creditworthiness test. In the last few years we believe that creditworthiness has become more important than what the basic purpose of the programs are. These programs were basically designed to move U.S. agricultural products into the export market. And we believe that sometimes in the way that that has been interpreted, that creditworthiness becomes the overriding factor. Not that it is not important. It is. But we also believe that the basic purpose of the programs overcome that problem.

Mr. ROTH. Thank you, Mr. Bovee.

Yes.

Mr. MAY. The Section 1215, which Mr. Huber alluded to in his statement, is a result of a meeting in August 1994 with the dairy industry and was given to Congress and supported by dairy organizations representing over 90 percent of America's dairy farmers. It passed the House Committee of Agriculture last year unanimously, but was not included in the GATT implementing legislation. It is now up in the Farm Bill.

We feel it is extremely important that these measures pass. They will add a more level playing field and a more competitive situation in regard to the imports in this country.

Mr. ROTH. Thank you, Mr. May.

Yes, Mr. Kohlmeier.

Mr. KOHLMAYER. In both the 1985 and 1990 Farm Bills, the language authorizing the Export Enhancement Program referred rather specifically to the purpose of the program as being primarily that of combating unfair trade practices.

It seems to me appropriate in this post-GATT era to rethink the objective of the program and if it is appropriate to do so to include in language that would authorize an Export Enhancement Program in 1995 to focus more on a market development purpose rather than a weapon against so-called unfair trading practices.

We are in a different era it seems to me, and that has become a more appropriate purpose, in my view.

I was interested in Mr. Huber's request that the dairy Export Enhancement Program refer to products non-specifically and refer to destinations non-specifically, which it seems to me broaches the subject of flexibility on the part of the exporters. I am not sure how appropriate it is in legislative language to address that issue but the more flexible the program is the more effective it is. And I would like to encourage that to be a goal.

Thanks very much.

Mr. ROTH. Thank you.

Yes, Mr. Willis.

Mr. WILLIS. Yes, Mr. Chairman, I would just add a couple of statements. One is that as Mr. Schumacher indicated earlier, we are being tremendously outspent on the Market Promotion Program or on the promotional side by a number of our competitors. He mentioned specifically Europe.

In the case of the red meat industry, our major competitor is Australia in the Pacific Rim, which accounts for the vast majority of our exports right now.

In Japan alone, the Australians are spending approximately \$24 million to \$25 million. The total U.S. Meat Export Federation budget, including salaries and all for our people in Denver, is not that much. We are about \$20 million. And we are spending \$22 million, and we are spending about \$20 overseas.

So, you know, for us to be effective, we need to be able to continue to use the MPP funds. We need to have access to them.

And I would encourage the Subcommittee to recommend that full funding at \$110 million per year plus the Green Box allocation where we take funds from the subsidies that are reduced in the coming years and move that into the Green Box programs.

Thank you.

Mr. ROTH. Thank you.

Mr. BEREUTER, let me call on you first for any questions you may have.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

Thanks to all of our witnesses for excellent testimony.

I want to give you a question to think about just a minute or two while I go on to another one. I want to ask each of you if you are willing to give me a response to this question.

In the intermediate or the long term, what do you believe is the single most important barrier to increasing our U.S. agricultural exports? I will come back to that so you can think about it a minute or two, and move on to other things.

One of them relates to our ability to export more high-value products, value-added products. And the Administration has a suggestion that we relax the U.S. content rule for the GSM programs.

I wonder if any of you have reactions pro or con or any reservations or cautionary comments to make on that subject.

It strikes a dead silence here.

Yes, sir.

Mr. BOVEE. I will offer an answer to both of those.

Mr. BEREUTER. Mr. Bovee.

Mr. BOVEE. One of the things that we have seen, I would say, is we are going through a major transition in the Export Credit Guarantee field with a change from where we used to have public sector buyers, everything was pretty much done government to government, and the programs worked well. In the last several years, we have seen not the entire marketplace, but the biggest part of it, change to the private sector.

Our single largest market is Mexico. We used to deal with one buyer there. If Conasupo wanted to buy corn, they might buy 500,000 tons in one offering. We had maybe four banks to deal with. It was relatively easy to manage. In the last few years, there are now maybe a thousand buyers that are going to be involved in that same volume.

So as the programs have changed and the commercial nature has changed, the programs need to be a little bit more flexible. So as a general answer to your question, I would say flexibility in the programs, the ability to adapt quickly to the marketplace and the changes that are going on with those markets.

From the foreign content side that we have talked about, the law the way it is written essentially asks to identify what the foreign content is in a product and then deduct that value from the guarantee. It makes it very difficult from a financial situation where we have set up arrangements to finance on a certain basis in which we assume that we are going to have a guarantee, in this case, 98 percent. There is some foreign content in that, that may be a very small amount. And because of that, it changes the aspects of the financing.

It is also difficult, as I mentioned before, for the exporters to determine what the exact value of that is and whether it is foreign or domestic, but it could be either one. And that makes it difficult.

So we have suggested that de minimis amounts of foreign content where it does not get in the way of anything else should be allowed to be included in the sale of those products. And to be included in the guarantee. We have other U.S. Government programs that allow for that.

Mr. BEREUTER. All right. Thank you.

Mr. Huber.

Mr. HUBER. I guess that I would have to just reemphasize what I stated as probably the highest priority item that I see that the Congress should address, and that is the State trading entity problem. The fact is that State trading entities who were not addressed in the Uruguay Round and I find that China and New Zealand and almost all the countries of the world that have those kinds of programs—or facilities—are going to create serious problems for us in the years ahead.

I also agree that any problem, such as DEIP, should not be product-specific and it should not be country-specific. They ought to have full access into the world market if we are going to do this, and I applaud the Administration for opening up Malaysia for dairy.

Mr. ROTH. Would the gentleman yield?

Mr. BEREUTER. I would be pleased to yield.

Mr. ROTH. I thank the gentleman for yielding.

Mr. Huber, I do not know if you were here for the testimony of Mr. Schumacher when he addressed that issue.

What did you think of his answer? Were you pretty well in step with what he had to say?

Mr. HUBER. I was indeed. I was very pleased to find that Mr. Schumacher has identified this as a really important problem.

Mr. ROTH. Thank you, Mr. Huber.

Thank you for yielding.

Mr. BEREUTER. I think Mr. Huber's first comments went to my first question for you to think about. I believe that was the intent of it. The biggest barriers.

Could I work in one more quick one here, and it relates to the Market Development Program.

Mr. Willis, you already addressed that and you gave some comments about it which I took into my thoughts, and I appreciate those.

But I would ask any of you, in addition to Mr. Willis, or perhaps including Mr. Willis again, for some ammunition in effect, because each year we face debate on the floor it seems on the Market—the MPP, the Market Promotion Program, and the charges are that it is corporate welfare and some people have suggested that we should make our aid more generic, reduce specific name brand advertising, basically I suppose go to the commodity groups and to the various cooperator groups and so on.

That may be one approach, but perhaps there are other ideas, because it seems to me each year the task we face and the defending the Market Promotion Program gets greater and greater. And the funding levels are typically reduced each time we face this battle.

Any suggestions that we need to take into account, because for some of us, the advantages of the MPP are self-evident, but to a lot of our colleagues they are not? Any good advice here? Any advice at all?

Mr. WILLIS. I do not know if I would say it was advice, but I think one thing that a number of people fail to realize is the fact that—well, let me back up and say that the branded side of our program has taken the most severe beating, and there is no question about that.

But on the other hand, in some markets it is almost mandatory that you have a U.S. brand to put forward in that marketplace.

Mr. BEREUTER. That seems to be the case in the Peoples Republic of China I am told, and that is what I observed in August.

Mr. WILLIS. Yes, sir.

Mr. BEREUTER. They are very brand-conscious. And with their selling American goods particularly because they know that brand, and that is what they want to buy.

Mr. WILLIS. Yes, sir. That is true. I happened to be in Shanghai in September at a food expo, at a consumer show. And we were working with a Hong Kong company that had a plant there that was selling U.S. meat, and it was promoted as U.S. meat, with this company's brand name, but it was U.S. meat.

They thought—it was a 5-day show, thought they might sell 10 boxes of U.S. chuck during that time. They sold 10 boxes a day. What was happening, they were slicing it very thin. They were selling it at a slight discount. People were buying one or two packs, about a half a pound at a time, taking it home, preparing it, and then coming back the next day and buying 10, 15 or 20 packs, because they liked what they tasted. But it was a brand name. It was a U.S. product. And in a lot of markets you have to have that brand aspect of it.

Also I think what comes into play in our case, because of our strategic planning and working with our overseas offices, branded promotion fits within our strategic planning and what we try to do within a marketplace.

And so I guess my advice is you want to be careful about what happens to the branded side of it because a number of us generic promoters also use the branded to support what we do from that side as well.

Mr. BEREUTER. I will conclude because I know others of you may have comments. I think we are running out of time here, but to my initial question to you, if I can just have a sentence or a word or two from you, Mr. Willis, maybe first.

I think Mr. Huber has already given his answer.

Mr. WILLIS. Yes, sir. I think cooperation—

Mr. BEREUTER. What is the biggest barrier to agricultural exports in the future?

Mr. WILLIS. I think it is going to be lack of flexibility in the programs and perhaps a lack of cooperation between the government and the private sector.

Mr. BEREUTER. Thank you.

Mr. Bovee, would you like to venture an opinion on that subject?

Mr. BOVEE. Other than I think flexibility is needed as the marketplace is changing, to address those changes and the programs oftentimes do not do that.

Mr. BEREUTER. I have not heard the introduction from the gentleman in the center, and I apologize for that. Your name is—

Mr. MAY. My name is Tom May.

Mr. BEREUTER. Mr. May, would you—

Mr. MAY. Mr. Huber mentioned me in his comments. I am a member of the Dairy Trade Coalition.

Mr. BEREUTER. Yes, sir. Would you like to offer a comment?

Mr. MAY. Yes, sir. Level the playing field. We can have these programs and I am talking about dairy now, which is the one commodity I have some knowledge. But when you are competing against monopolies that say I am going to control 50 percent of X markets and have the ability to do it, it is very difficult to fashion a program to compete with that.

I think anything that can be done to foster a true free trade environment where arm's length transactions and buyers trying to buy at low prices and sellers trying to sell at high prices, I think under

those circumstances in the dairy industry, the United States will do very well.

Mr. BEREUTER. Thank you.

I think I can estimate what Mr. Kohlmeyer's answer is going to be but I will see if I am right. There is an official statement from your organization out that answers that, but I want to see if yours is the same.

Mr. KOHLMAYER. I am aware of that, but my response to your question is this. To me the single-most important barrier to increasing U.S. agricultural exports is what I would describe as a rising degree of back door protectionism around the world that comes, I think, in part as a reaction to the GATT Agreement and the Uruguay Round and the WTO as member countries sit back and try to figure out how to position themselves under these new circumstances.

I think we are going to see it show up in fights over sanitary and phyto-sanitary restrictions. Although I would quickly add that we have a much better basis for those fights today than we did prior to GATT. We are also going to see other non-tariff trade barriers grow and we are going to see a struggle to ensure that signatories to the WTO agreement, in fact, implement their obligations as their agreement suggests that they ought to.

Now, I do not know if that quite tracks with what you expected, but that I think is what I see as the real barrier long-term to increasing U.S. agricultural exports.

Mr. BEREUTER. Thank you. Well, it does not give me what I expected from World Perspectives, but it is a very good answer. And, in fact, my APEC letter is aimed at that problem now because the commitments we thought we had there from Bogar, of course they are backing away from right now.

The official answer that I thought I read in one of your publications is supply controls. But that is all right.

Mr. KOHLMAYER. I can get into that as well, but I do not think you probably want to take—it is probably an hour discussion.

Mr. BEREUTER. Thank you very much.

Mr. Chairman, I want to thank you for convening this hearing with the excellent testimony of both panels.

Mr. ROTH. I thank you very much, Mr. Bereuter, and thank you for your excellent questions.

Mr. Kohlmeyer, let me ask you this question. Is Mr. Schumacher's chart realistic? It doesn't appear doable because it is too straight up.

Mr. KOHLMAYER. Well, as I think you pointed out in your discussion with Mr. Schumacher, Mr. Chairman, charts frequently go straight up but reality tends to be more crooked. And I would say that measured at least in terms of volume, I think that the objective by the year 2000 is probably doable. But I am also realistic enough to know that we are going to have ups and downs. That we are talking about a number of different products and commodities whose value varies quite widely from time to time, year to year. And which can impact a dollar assessment of our exports.

But as a goal, I would say it is doable, but it is undoubtedly going to prove to be the case that the line that tracks it will not be quite so neat.

Mr. ROTH. Well, if we do more and have a little more equity for dairy, maybe the line will straighten out that line a little bit.

I am interested, curious. We had Secretary Brown testify before our committee last week and he talked about the tactics that foreign competitors were using.

Mr. Willis, you said you were just overseas. He talked about foreign competitors using everything to get contracts, including bribery and whatnot.

In your product area, do you find that to be true too, or is this only in high technology?

Mr. WILLIS. In our case, what we run into is being severely outspent in terms of promotional dollars. Also what we run into, in the case of Australia specifically, is that they can spend their check-off dollars, their promotional dollars, any way they want to. Whereas we are very limited in how we can use our MPP as well as our beef, pork, corn, soy bean check-off funds. We have very stringent rules which we have to follow.

And so we do not necessarily run into the bribery, those types of things. What we run into is being outspent severely in nearly every market we are in.

Mr. ROTH. I want to thank our panelists today for their excellent testimony and their straightforward answers. We want to assure you that we are going to do our best when we go before the Rules Committee on this portion of the agriculture bill.

Thank you very much.

[Whereupon, at 2:58 p.m., the Subcommittee was adjourned.]

APPENDIX

Committee on International Relations

STATEMENT BY THE HON. TOBY ROTH, CHAIRMAN SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

WHEN IT COMES TO DIFFICULT TRADE ISSUES, NOTHING IS MORE CONTENTIOUS THAN AGRICULTURE. THIS IS WHERE THE ACADEMIC PRINCIPLES OF FREE MARKETS AND FAIR TRADE RUN INTO THE HARD REALITY OF SUBSIDIES, QUOTAS, BARRIERS AND OTHER PROTECTIONS. THE FACT IS, EVERY MAJOR PRODUCING NATION IS FIGHTING TOOTH AND NAIL FOR A BIGGER SHARE OF THE \$250 BILLION GLOBAL TRADE IN FARM GOODS.

FOR THE U.S., AGRICULTURAL TRADE IS A BRIGHT SPOT. WE HAVE A \$25 BILLION SURPLUS IN FARM TRADE AND WE CONTROL NEARLY ONE-FOURTH OF ALL GLOBAL TRADE IN AGRICULTURE -- \$53 BILLION LAST YEAR. OUR AGRICULTURAL EXPORTS SUPPORT MORE THAN 750,000 JOBS IN THE U.S. AND HAVE A TOTAL ECONOMIC IMPACT OF MORE THAN \$100 BILLION. WE ARE NUMBER ONE IN CERTAIN COMMODITIES, SUCH AS COTTON, WHEAT, AND SOYBEANS. AND WE ARE COMPETITIVE IN OTHER AREAS, SUCH AS: BEEF, RICE, AND APPLES. BUT IN SOME AREAS, SUCH AS DAIRY AND OTHER HIGH-VALUE PRODUCTS, WE ARE OUT-GUNNED BY THE COMPETITION.

OVERALL, WE ARE DOING WELL, BUT I WANT US TO DO BETTER IN THESE OTHER AREAS. AT THE SAME TIME, WE MUST MAINTAIN OUR PROGRAMS. SUCCESS IS NO ACCIDENT AND OUR CONTINUED LEADERSHIP IS NOT GUARANTEED. WE HAVE ACTIVE, AGGRESSIVE PROGRAMS TO IDENTIFY OVERSEAS MARKETS, TO PROMOTE OUR PRODUCTS, AND TO FINISH OUR EXPORTS.

THE REALITY IS, THESE PROGRAMS ARE ESSENTIAL TO OUR FARMERS, TO OUR EXPORTERS AND TO OUR FARM ECONOMY. OUR AGRICULTURAL EXPORTERS FACE HEAVILY SUBSIDIZED COMPETITION AND UNFAIR TRADE PRACTICES. ALREADY THE EU OUTSPENDS US SIX TO ONE. THE EU TODAY SPENDS MORE ON PROMOTING ITS WINE EXPORTS THAN WE DO ON PROMOTING ALL OUR AGRICULTURAL EXPORTS.

AS FAR AS I AM CONCERNED, WE MUST COMPETE, AND WE MUST WIN. THIS SUBCOMMITTEE WILL REPORT LEGISLATION TO THE HOUSE ON THE TRADE PROVISIONS OF THE 1995 FARM BILL, JUST AS WE HAVE DONE IN PRIOR YEARS. OUR HEARING TODAY IS TO HELP PREPARE US FOR THAT LEGISLATION. THE QUESTION IS VERY SIMPLE: WHAT SHOULD WE DO TO UPDATE AND STRENGTHEN OUR FARM EXPORT PROGRAMS?

TO HELP US DEAL WITH THIS ISSUE, WE HAVE HERE TODAY TWO IMPORTANT PANELS. FIRST, WE WILL HEAR FROM AUGUST SCHUMACHER, ADMINISTRATOR OF THE FOREIGN AGRICULTURAL SERVICE AT USDA. SECOND, WE WILL BE JOINED BY A PANEL OF EXPERTS REPRESENTING OUR AGRICULTURAL TRADE INDUSTRY.

I LOOK FORWARD TO THEIR TESTIMONY AND WELCOME THEIR INPUT AS WE CONSIDER THE TRADE ASPECTS OF THE 1995 FARM BILL.

Testimony of August Schumacher, Jr.
 Administrator of the Foreign Agricultural Service
 Before the House Committee on International Relations
 Subcommittee on International Economic Policy and Trade
 October 19, 1995

Mr. Chairman, members of the subcommittee, I am pleased to come before you today to discuss the operation of USDA's export assistance and promotion programs in the context of this year's farm bill.

Agricultural exports are THE success story in the U.S. trade picture. Agriculture has consistently had the second-largest trade surplus among the nation's economic sectors, making it a shining star in the U.S. balance-of-trade picture. Last year's expected \$24-billion surplus in agricultural trade, and this year's projected \$25.5-billion surplus, help offset part of the United States' trade deficit in nonagricultural merchandise.

Agricultural exports are expected to reach a record high of \$53 billion when final numbers are in for fiscal year 1995. That represents a significant increase over the \$43.5 billion recorded in fiscal 1994 and would break the previous record of \$43.8 billion set in fiscal 1981. We expect another banner year in fiscal 1996, with a new record high of \$54.5 billion.

The U.S. share of world agricultural trade is expected to reach 23 percent for fiscal 1995, the highest level in over a decade. That makes the United States the leading agricultural exporter in the world with a growing lead over our largest competitor, the European Union (EU). In fact, since 1985, the U.S. share of world trade has grown more than that of any other exporting nation.

Current export projections are proof that our export programs and trade policy initiatives are paying off. The record export numbers that we have seen—and expect to see again in the coming year—confirm that the Administration's aggressive farm policy and effective export assistance programs are having a direct and beneficial impact on farmers' bottom line. As work continues on a new farm bill, we have an opportunity to improve our already successful export tools.

Exports will continue to be critically important to the well-being of American farmers as more of our agricultural production moves into export channels. Already, the production of more than one-third of all acres planted is sold overseas to help meet the demand generated by the 96 percent of the world's consumers who live outside the United States.

Farm income earned from exports helps to ensure a healthy, profitable, farm sector that provides U.S. consumers with the most varied and best-valued food supply in the world.

And, as you know, Mr. Chairman, the benefits of agricultural trade also extend far

beyond the farms and ranches of America to the entire U.S. economy. Agriculture has the second-largest trade surplus among the nation's economic sectors. Agriculture is the shining star in the U.S. balance-of-trade picture. Last year's record \$24-billion surplus in agricultural trade and this year's projected \$25.5-billion surplus help offset part of the United States' trade deficit in nonagricultural merchandise.

Agricultural exports make a significant contribution to economic activity and jobs in every state of this nation. An Economic Research Service (ERS) study concluded that the employment generated by the production and processing of U.S. agricultural exports in 1993 provided around 768,000 full-time jobs in the U.S. economy. Roughly 460,000 of these jobs -- 60 percent -- were beyond the farm gate, as workers in the processing, assembly, transportation, marketing, and other industries were employed in preparing agricultural products for shipment overseas. The total economic activity related to these exports was estimated at over \$100 billion for 1993.

The programs I will discuss today play an important role in making these economic contributions. They are critical to our strategic approach towards challenging the unfair trade practices of U.S. competitors and opening the doors to long-term market opportunities for America's farmers.

Background

Between fiscal years 1981 and 1986, U.S. agricultural exports plummeted 40 percent in value, due to a global economic downturn, an over-valuation of the dollar, and high domestic price-support loan rates that priced U.S. farm commodities out of the world market. Twenty-six consecutive years of U.S. balance-of-trade surpluses in agriculture seemed about to disappear and farm income declined sharply as the nation experienced a recession and commodity prices weakened.

Beginning in the mid-1980's, after this dramatic and sustained decline in U.S. agricultural exports, and in the face of substantial agricultural export subsidies by the European Union (EU), Congress mandated more market-oriented domestic farm policies and a larger and more active role for USDA's export programs. The Food Security Act of 1985 saw the introduction of the Targeted Export Assistance Program--the precursor of the current Market Promotion Program (MPP), as well as the introduction of the GSM-103 intermediate-term export credit guarantee program. Also, the 1985 Act mandated the operation of the Export Enhancement Program, which had been established by USDA through administrative action in the spring of 1985.

In the 1990 Food, Agriculture, Conservation, and Trade Act, title I of P.L. 480 was amended to enable USDA to improve program administration and to focus on the market development aspect of food assistance.

Expanded authorities and increased funding for these export programs were also enacted to provide greater sales opportunities and higher income from the international marketplace for America's farmers. Gains from the export market were expected to help

ensure that a greater portion of producers' incomes was received from the market place as more market-oriented domestic farm policies were adopted and budget deficit-reduction measures resulted in less reliance on government price and income supports.

Yet, even with our record export levels, and despite the promise of new market opportunities afforded by the Uruguay Round Agreement of the GATT and the North American Free Trade Agreement (NAFTA), we must recognize that U.S. farmers and exporters continue to face heavily subsidized competition and unfair trade practices in global markets. Similarly, access to credit remains a critical necessity and credit programs are employed by most of our major competitors for stimulating exports to many developing countries and to emerging democracies that have embarked on the courageous and uncertain road to political and economic reform.

With that introduction and background, Mr. Chairman, I would now like to describe the export programs that are the focus of this hearing.

Credit Guarantee Programs

Under the authority provided by Congress, USDA administers two export credit guarantee programs -- the GSM-102 Export Credit Guarantee Program and the GSM-103 Intermediate Export Credit Guarantee Program.

For both the export credit guarantee and export subsidy programs, which I will discuss shortly, sales of U.S. agricultural products are negotiated between private-sector exporters of such products and foreign buyers.

The purpose of USDA's export credit guarantee programs is to encourage the private sector to extend credits to importers in developing and middle income countries who would not otherwise be able to purchase commercially.

Under both the GSM-102 and the GSM-103 programs, the U.S. Government guarantees payment to exporters of U.S. agricultural products or their financial institutions if the foreign banks financing the purchase fail to pay. The guarantees encourage U.S. lenders to extend commercial credit that allows overseas customers to defer payment on the commodities. The guarantees protect only the U.S. creditors, and payments are made only in the event of nonpayment by the foreign banks.

The GSM-102 program, in operation since 1980, covers export credits with repayment terms of up to 3 years and is our largest single commercial export program. The Agricultural Trade Act of 1978, as amended (the 1978 Act), requires that not less than \$5 billion in GSM-102 guarantees be made available each fiscal year through 1995.

The GSM-103 program facilitates sales over even more extended payback periods, covering export credits of more than 3 and up to 10 years. Not less than \$500 million in

guarantees were to be made available under this program in each fiscal year through 1995. Both the GSM-102 and GSM-103 programs are intended to help developing nations make the transition from concessional to commercial credit or cash sales. Last year, these programs helped move U.S. farm products to more than 70 countries.

USDA's export credit guarantee programs are designed to maximize U.S. agricultural sales to cash-short commercial buyers -- particularly developing and middle-income countries that have difficulty obtaining credit in financial markets. The purpose is to facilitate export credit that would not otherwise be made available by the commercial sector, but to avoid assuming so much risk as to compromise a reasonable expectation of repayment.

To make USDA's export credit guarantee programs more effective in today's highly competitive marketplace, we are recommending several modifications to these programs in this year's farm bill.

Specifically, we would like to see changes made in the creditworthiness language in the 1978 Act that would clearly differentiate between short and long-term risk evaluations for economies in transition. This would enable us to use the GSM-103 program in a number of potentially important customer countries where it cannot be used today.

For example, we believe there are a number of economies in transition which, while they may pose a higher risk than can be accepted for our GSM-102 program (where a 3-year repayment period is the current standard), do not pose such a risk over the longer term because they are participating in economic reform programs under the auspices of international financial institutions. Thus, these countries might be suitable candidates for inclusion in the GSM-103 program. Any increased export subsidy costs associated with targeting emerging markets could be offset by a reduction in the overall level of export credit guarantees.

We also believe that the export credit guarantee programs would be significantly more effective in assisting sales of high-value products -- which are the fastest growing segment of world agricultural trade -- if we had more flexibility with regard to U.S. content requirements.

The ability of the GSM-102 and GSM-103 programs to support exports of high-value products, especially consumer-oriented products, is limited by the strict requirements of the current law requiring 100-percent U.S. content in nearly all cases.

Many times, the precise content of a high-value product is not easily known to a U.S. exporter. For example, the product may contain a blend of U.S. and foreign-grown sugar, or it may make some use of imported spices.

Consequently, USDA is recommending the use of more flexible wording in the

authorizing legislation for the credit guarantee programs so that we can retain the emphasis on U.S.-origin products, but still make effective use of these programs in promoting exports of high-value products — where the biggest employment and income benefits from exporting occur. High-value exports are, of course, the best deal for America since both the on-farm production and off-farm processing create "home-grown" jobs.

Export Enhancement Program

In 1985, the United States reluctantly embarked on a policy of targeted export subsidization because aggressive EU export policies left us with little choice. Currently, the Commodity Credit Corporation (CCC) is required by statute to make available at least \$500 million in funds or commodities for the EEP each fiscal year through 2001.

The EEP operates under a bid-bonus system, in which exporters of U.S. agricultural commodities submit bids for bonus levels that will allow them to sell eligible commodities at competitive prices. USDA announces program allocations for each commodity at the beginning of the marketing year and exporters submit bids to USDA for review for each piece of business.

While we now view the EEP in broader market development terms with the implementation of the Uruguay Round Agreement, the EEP will remain an essential trade policy tool to protect U.S. interests in a world market that is still distorted by subsidies and unfair trading practices.

Tight global supplies and higher prices, particularly of grains, have improved the competitiveness of U.S. agricultural exports. In fiscal 1995, expenditures under USDA's export subsidy program were just under \$340 million, well below expenditures in FY 1991 through FY 1994. Activity in the current fiscal year remains minimal except for some dairy products.

The EU has likewise reduced substantially its export subsidies for grain in the past several months, and total EU export subsidies for agricultural products have dropped almost \$3 billion since 1991. Despite this decline, overall EU export subsidies remain extremely high when compared with those of the United States.

Despite the current tight world supply situation we should not lose sight of the potential for a return to excess supplies and potential export competition from the EU and other exporters. The EU this year has available an estimated \$1.3 billion in export subsidies for grain, out of a total 1995 budget for agricultural export subsidies of about \$9 billion.

In addition, Canada in its 1995/96 budget announced a new program for up to \$732 million in additional credit guarantees for agricultural products, including \$513 million for wheat and barley through the Canadian Wheat Board.

Even less traditional exporters are becoming more aggressive. For example, Chile increased its funding for export market promotion to approximately \$21 million in 1995 from \$3 million in 1993.

The Uruguay Round Agreement commits the United States and other subsidizing exporting countries to reduce their agricultural export subsidies over a 6-year period, and that process is under way. Quantity reductions began in July and reductions in expenditures began this month.

The President's budget for EEP and DEIP reflects the required cuts in export subsidies but maintains the programs based on the fact that subsidies and unfair trade practices still exist and we must be ready to combat them.

In order to put U.S. farmers and exporters in the most competitive position possible at the end of the GATT phase-down period, the Administration is considering various options for reforming the operation of the EEP. Consistent with the statutory requirement that EEP be used to encourage the commercial sale of U.S. agricultural commodities in world markets at competitive prices, our goal is to make EEP a more market-oriented program rather than a program focused only on price competition vis a vis other subsidizing exporters. Also, because we are required to trim subsidy levels, we need to be sure to use what we can spend to maximum effect. We want reform of the program to result in placing U.S. exporters in the best competitive position at the end of the 6-year GATT phase-in period.

Earlier this year CCC sought public comment via the *Federal Register* on three proposals for increasing the market orientation for the EEP. These proposals are consistent with the Administration's guidance in the *Blue Book* and include a quarterly auction of subsidized export volume commitments, by region and commodity, or an equivalent system; a pre-announced bonus; or market modifications to the current system. The auction approach would allow exporters to allocate subsidies across individual sales in any way that they wish, increasing their flexibility to respond to changing market conditions. The proposed changes would apply to the DEIP, as well as to the EEP.

Currently, we are working with other agencies in the Trade Policy Review Group to develop a policy document outlining the operational details of the various options as well as an analysis of how each option can be measured against the objectives set forth in the *Blue Book*. We have announce two interim programs under the EEP for the July through December 31, 1995 period to avoid disruption in the operation of EEP.

Market Development Programs

Market development and promotion through the Foreign Market Development -- or Cooperator -- Program and the Market Promotion Program (MPP) also continue to be essential for the export success of U.S. agricultural products.

The MPP was authorized by the 1978 Act. The purpose of the MPP is to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations. The MPP provided a tool to expand the market development efforts of the longstanding Cooperator Program, which began in the 1950's.

Promotions have been conducted on a cost-sharing basis by nonprofit commodity groups, State Regional Trade Groups, cooperatives, and private firms. The primary focus is on consumer promotions, such as in-store product demonstrations and media advertising, although MPP promotional activities range widely based on the product and the characteristics of the market.

In fiscal year 1995, more than 60 U.S. nonprofit commodity groups and regional trade organizations were allocated \$110 million under the MPP to promote a wide range of food, farm, forestry, and fish products. MPP helps U.S. exporters meet competitor practices and helps American producers realize the benefits of open markets and freer trade. The program boosts U.S. agricultural exports and its long-term benefits for the U.S. economy are expected to continue well into the future.

MPP success stories are numerous. The program has helped increase—in many cases significantly—U.S. exports of apples, asparagus, bovine semen, candy, cheese, ice cream, yogurt, meat, soybean meal, wheat, walnuts, wood products, corn, prunes, pears, pet food, potatoes, poultry, raisins, rice, canned salmon, wine, and other products.

Strong, innovative market development programs will become even more critical as the competition heats up with more open markets around the world, and as markets change, as they have in Eastern Europe. Our competitors, especially those in the EU, will be using every tool permitted under the World Trade Organization to the fullest extent possible, and the United States needs to be just as aggressive.

As implementation of the Uruguay Round Agreement progresses, we will also need to focus more attention and resources on technical barriers to trade so that we can effectively monitor and respond to these challenges as they develop. Secretary Glickman has established a department-wide sanitary and phytosanitary action team to identify and respond to trade-distorting sanitary and phytosanitary regulations used by countries seeking unfair trade advantages. We have mobilized to respond to unjustified measures quickly and effectively, with a comprehensive and unified U.S. strategy, so that American agriculture will not lose export opportunities because of these barriers.

That concludes my testimony, Mr. Chairman. I appreciate this opportunity to testify before you today on USDA's export programs. I will be happy to answer any questions you or other members of the subcommittee have.

- - -

Testimony of

Robert W. Kohlmeyer

**Executive Vice-President
World Perspectives, Inc.**

presented before

**The Subcommittee on International Economic Policy and Trade
of the
Committee On International Relations
United States House of Representatives**

**Washington, D.C.
October 19, 1995**

Mr. Chairman and members of the subcommittee, I am Robert Kohlmeyer, executive vice-president of World Perspectives, Incorporated. WPI is a private information, analytic and consulting company specializing in agricultural and trade policy. For 15 years WPI has provided information, analysis and strategic consulting in these and related areas to clients which include U.S. and overseas trading companies, processors, financial institutions and government agencies here and abroad.

Before joining WPI five years ago, I spent 36 years in hands-on agricultural commodity merchandising. For a majority of that time, my principal activities involved export grain markets. I am pleased to have this opportunity to share my views with you on U.S. agricultural export programs.

I would like to concentrate on two programs administered by the U.S. Department of Agriculture, namely the Export Enhancement Program of export subsidies, known widely by the acronym, EEP, and the program of export credit guarantees known as GSM.

The Export Enhancement Program

The EEP was created in 1985 and authorized in the omnibus farm legislation of that year. It was re-authorized in the 1990 Farm Bill. In both cases the Congress described the program as one intended to combat and discourage "unfair trade practices," a phrase universally assumed to refer to the European Union's own program of export subsidies for both bulk commodities and higher value products.

It seems to me that export subsidies, and especially those applied to agricultural commodities and products have two inherent characteristics. First, though they are rationalized as assistance for international trade, export subsidies are invariably created for domestic political purposes and to offset the effects of other domestic policies.

Second, export subsidies are, by definition, economic distortions. They mask or distort economic signals constantly being sent to buyers and sellers, including agricultural producers, by the market. They often cause poor economic decisions by market participants, even by governments.

The EEP is generally applauded by farmers who believe that export subsidies enhance domestic prices by increasing exports. There is no credible evidence that EEP has increased U.S. exports over the past decade that we can discover. Export subsidies do not create demand, nor increase total trade. U.S. share of world wheat trade has been flat and actually lower than prior to the program. Business we may have gained through subsidies has been offset by business we gave up.

By contrast, EEP is strongly disliked by most exporters. They see it as a restriction to trade, not an enhancement. With USDA determining which countries can buy, when they can buy, how much they can buy and at what price they may buy, exporters argue that any chance of maximizing U.S. exports utilizing comparative advantage is lost.

The questionable basis for agricultural export subsidies was recognized when for the first time in international trade negotiations, agriculture was made a key part of the Uruguay Round. Signatories to the new World Trade Organization (WTO), including the U.S. and the European Union, have agreed to reduce the volume of agricultural export subsidies over a six year period by 21 percent and expenditures for such subsidies over the same period by 36 percent.

But it must also be recognized that the Uruguay Round agreement has legitimized the use of agricultural export subsidies, within the quantitative and budget limits specified, by those countries previously using them. In other words, we can no longer complain that the E.U. uses "unfair" export subsidies.

In the grain trade there is a very old saying, "the market is bigger than thee and me." The truth of this is periodically demonstrated to all participants, including governments. During the past several months, market circumstances clearly demonstrated that continued use of export subsidies for bulk commodities in the face of historically tight levels of supply relative to demand for those supplies was both unnecessary and unwise.

To their credit, both USDA and the E.U.'s Commission recognized this, and in early summer both stopped the use of export subsidies for bulk grains. More than a year ago USDA stopped subsidizing export sales of edible oils such as soybean oil and cottonseed oil in response to a similar tightness in world supplies and a growing world demand.

As a result, and without intending to, the U.S. has been engaged in an experiment of sorts. We have been finding out what life without EEP is really like.

So far, in the first one-third of the 1995/1996 marketing year, a year in which total world trade in wheat had been expected to decline below last year's level, U.S. wheat export commitments have actually increased by more than a million metric tons over the same period a year ago.

Barley export commitments are running close to last year's despite the absence of U.S. export subsidies and the fact that the U.S. enjoys no particular advantage as a supplier to the most active barley markets of North Africa and the Middle East.

The biggest impact from the cessation of barley export subsidies by the E.U. and U.S. concerns price, however. Barley values are now at a premium to corn in world markets. When the U.S. and E.U. engaged in subsidy competition over barley markets, world prices for barley were driven to deep discounts under corn.

U.S. soybean oil exports without subsidies are the real success story. During a full marketing year without export subsidies, U.S. soybean oil exports in 1994/1995 came close to doubling those of the previous year.

Clearly, this experience shows that, as far as U.S. agricultural exports are concerned, there indeed is a life without EEP.

One of the most distortive features of the EEP program has been its targeted nature. Export subsidies have been available for some destinations, but not for others. Some destinations were excluded because it was perceived that the E.U. was not a competitor for the business. A number of important destinations were excluded by foreign policy considerations or because so-called non-subsidizing competitors put enough high level pressure on the U.S. government to keep export subsidies away from favorite markets.

As a result, we often saw USDA pay large export subsidies for U.S. wheat sales into the E.U.'s backyard, North Africa for example, while untargeted markets in our backyard, Latin America for example, were donated to Canada, the E.U., Argentina and Australia.

Currently, without the EEP to contend with, U.S. exporters are free to pursue business when and where it is available, and to use the strengths of the U.S. marketing system, geographic advantage and export capacity without being tied down by targeting and quantitative restrictions inherent in the EEP. The results speak for themselves, suggesting that life without EEP is just fine.

In a more perfect world, export subsidies would be done away with permanently. The world is more political than perfect, and the politics are that the new farm legislation under consideration in part by this subcommittee will certainly contain a reauthorization for EEP.

In early 1993, we at WPI put forward a proposal for a new subsidy program based on our conclusion that limited export subsidies would survive and be legitimized by the Uruguay Round, but that their nature and objectives must change. No longer can they be rationalized by citing others "unfair trade practices," since we have now agreed to the continuation of those practices.

Instead, they should be converted to market development purposes. And since the amounts of subsidies allowed are limited, ways must be found to maximize the benefits from this shrinking resource, if it is decided to put export subsidies to use again.

We are pleased to note that USDA is presently considering some of the points we raised in its current effort to adapt a subsidy program to the new realities. We urge that a new program give exporters enough flexibilities so that they can compete effectively with their European counterparts and others. We urge that the program be designed to encourage the greatest volume of exports for the limited amount of subsidies.

Most of all, of course, we hope that the use of an export subsidy program for bulk commodities can be avoided.

GSM Credit Guarantees

Several months ago WPI published the results of a review and analysis of the GSM export credit guarantee program along with recommendations designed to improve the program. Our report was widely circulated within USDA and the Administration, on Capitol Hill and among the press. I can think of no better way to summarize my views of the GSM program than to excerpt the executive summary from that report, which follows:

EXECUTIVE SUMMARY

The GSM credit guarantee programs have served for 15 years to support the export of more than \$50 billion in U.S. agricultural products. Exports of more than 50 different commodities have been marketed to more than 55 countries under GSM-supported commercial terms to buyers.

The GSM exemplifies an effective government program because it minimizes taxpayer costs, maximizes economic return, operates as a public/private sector partnership, and enables U.S. farmers to market against foreign competitors.

A fully utilized GSM program generates more than 170,000 jobs plus \$1.38 billion in additional economic activity in the U.S. economy.

The GSM program over the past 15 years has effectively leveraged government subsidy dollars without undue risk to the CCC. Since the inception of the program, over 90 percent of claims have been collected (excluding Iraq).

Failure to have exported the wheat and corn which moved under GSM-102 in FY 1994 could have increased CCC price support program costs by \$1 billion or more.

GSM has played a major role in exporting U.S. commodities against aggressive competition, in fulfilling a critical financing gap for a normal commercial market temporarily unable to meet payments, and in accessing markets requiring special assistance to meet attractive competitor programs or selling price policy.

Grains and oilseeds have generally dominated allocations under the program. However, high value products comprise the fastest growing area for U.S. agricultural exports, and the programs must be responsive to this new area of trade.

GSM was not fully utilized under existing program regulations, as the marketplace shifted from being predominantly state trading monopolies (which operate with the full support of the central bank in their financial transactions) to private sector buyers with a range of specialized financing requirements.

Utilization of GSM has been reduced by the high hurdle imposed by the Food, Agriculture, Conservation and Trade Act of 1990 program mandate that relates to creditworthiness.

GSM can play a crucial future role in meeting the needs of emerging geographic and product markets, particularly in Asia and Latin America.

GSM needs to operate where new competitive market systems being established around the world are raising both the cost and risk of doing business in a less-stable marketplace.

U.S. agricultural export programs, including GSM, need to be strengthened, and should be a primary focus of the farm bill.

The state of world trade competition supports the U.S. need to operate a flexible variety of government-supported export promotion or guarantee authorities. As the Uruguay Round obligations are phased in and agricultural markets expand, the role of official export financing support will change.

Future utilization of GSM programs will require changes necessary to service new trading entities, new geographic markets, new products, and new economic and financial market conditions.

Mr. Chairman, thank you for this opportunity to share some thoughts about agricultural export programs with this subcommittee. I will be happy to respond to questions.

□

*Testimony
of
Mr. Stewart G. Huber
President of the Farmers Union Milk Marketing Cooperative
on
The Trade Provisions of the 1995 Farm Bill
Before
The U.S. House International Relations Subcommittee
on
International Economic Policy and Trade
Washington, D.C.
October 19, 1995*

Mr. Chairman and members of the subcommittee, my name is Stewart Huber. I am a northeastern Wisconsin dairy farmer and also serve as president of the Farmers Union Milk Marketing Cooperative. I appear here today on behalf of the nearly 10,000 Midwest dairy farm families who belong to that cooperative and are concerned about how the trade provisions of the 1995 Farm Bill will affect their livelihoods. We thank you for holding this timely hearing and affording as an opportunity to present our views.

Appearing with me today is Mr. Tom May of Trugman-Nash, Inc., who also is founding member of the Dairy Trade Coalition (DTC), a coalition representing a broad spectrum of interests in dairy trade matters. Mr. May is prepared to serve as technical support person on the dairy trade portions of my testimony.

Mr. Chairman, international trade rules are now front burner concerns of US dairy farmers. We agree with your assessment that U.S. dairy farmers were dealt a bad hand in the Uruguay Round of the GATT negotiations and we applaud your vote against that accord. While some commodities may have been winners, dairy was a clear loser as our negotiators gave away our Section 22 protections, dramatically increasing minimum market access and reducing our Dairy Export Incentive Program (DEIP) while completely ignoring the predatory practices of State Trading Enterprises. Mr. Chairman, we need to protect against unfair trading practices within our borders and abroad.

These goals are more important than ever given the stark new realities of the post-GATT and NAFTA world, the loss of Section 22, increasing federal budget pressures, the looming threat of dairy deregulation and other challenges. We urge Congress and the Administration to work together in a bipartisan effort to develop progressive new legislation in the 1995 Farm Bill to improve family farm income and stabilize dairy markets.

Considering these new realities, we recommend the following:

- The Congress should fully fund the Market Promotion Program and the Market Development Program, so dairy can take full advantage of them.
- The Dairy Export Incentive Program ("DEIP") must be fully funded at the maximum allowable levels through at least the year 2000 as promised by the Administration and negotiated under the Uruguay Round.
- The DEIP program should be reformed by making it country and

product non-specific and removing it from the interagency review process.

At this point I want to make special note of the fact that the U.S. dairy industry, which includes producers, processors, and traders, needs the DEIP to ease the way for our dairy products into new markets. The United States agreed to reductions of 21% in export product volume and 36% in export subsidy value DEIP over the six year implementation period of the Uruguay Round. The Congress and the Administration must not be bullied and badgered by foreign delegations into further reducing our DEIP program if our industry is to have any hope of penetrating new markets around the world.

We fully expect our Congressional representatives to see to it that the DEIP program is utilized to the fullest extent allowable under GATT and is utilized in those countries where we can get the biggest bang for the buck. This was agreed to by the GATT negotiators and it would be foolish not to fully utilize the one effective export tool available to the U.S. dairy industry.

It is also important to do so because there are countries that operate State Trading Enterprises ("STEs") which will undermine U.S. competitiveness in foreign markets and may well raise the level of per unit subsidies that are required under the Dairy Export Incentive Program for the U.S. to compete with them in third country markets. Additionally, these countries engage in aggressive sales and pricing strategies which include price discrimination among markets and which in turn have a negative impact on U.S. milk producers.

But full funding of the DEIP program is not nearly enough. It is a fiction to suggest that the American dairy industry enters into the post-GATT world with opportunity equal to that of other exporting countries. Other countries can out-subsidize us and the activities of STEs force us to compete with vertical monopolies able to grab and control markets. This is not a level playing field and it is not free or fair trade.

The role of STEs will increase given the interest which China, Russia, and the Ukraine have expressed in joining the WTO. The matter of STEs is of particular concern to American agriculture, and dairy specifically, because the majority of STEs are agricultural in nature regarding products such as *grains and cereals, dairy products, beef and veal, oil and oilseeds, pork, potatoes, wool, fruits, poultry and eggs*.

Mr. Chairman, at this time I again want to thank you not only for holding this hearing but for your promise to hold a special hearing on the issue of STEs in the very near future. I look forward to the opportunity to appear before you at that time because the DTC, of which FUMMC is a member, has been and continues to be engaged in extensive work and dialogue with our counterparts around the world on this very sensitive issue which was left unaddressed by the GATT negotiators.

Few in the American dairy industry fully understand how STEs use their monopoly power to unfairly outmaneuver their competitors for export sales in the world market. Nor is it commonly known in this country how foreign STEs engage in transfer pricing schemes in the United States.

As mentioned earlier, we seek policies that protect your dairy farmer constituents against unfair international trading practices abroad and within our borders. Certainly, continuation and expansion of the DEIP program are the right and fair thing to do on the international scene.

I now want to turn my attention to other GATT legal recommendations which can be easily implemented by the U.S. Department of Agriculture in order to assure that fair play is the order of the day within our borders. The Committee on Agriculture has included in section 1215 of its reconciliation legislation

a provision to codify and improve certain regulatory requirements governing licenses for the import of dairy products.

Section 1215 will provide the Secretary of Agriculture with the tools necessary to provide for the orderly marketing of dairy products, consistent with the Secretary's obligations under current law to operate other Department of Agriculture programs, including the dairy price support program.

The management of these marketings is essential to maintaining fair and competitive markets for dairy products in the United States, and in ensuring the integrity of pricing for milk and dairy products. Without a fair and effective import licensing system operated by the Secretary, dairy product imports could negatively affect the orderly marketing of all dairy products in our domestic market, including those produced in the United States.

Such a turn of events can negatively affect the income of the entire domestic dairy industry, including dairy farmers, their cooperative dairy processors, and other enterprises that market dairy products domestically and internationally. It can also result in increased outlays for, and the disruption of, the Department of Agriculture's operation of the dairy price support program.

I am providing you with a summary which describes in more detail what section 1215 will and will not do. I urge you to support these important improvements in the Secretary of Agriculture's authorities.

Mr. Chairman, commerce and the business of commerce require timely actions if a nation's economic patrimony is to be vital to its citizens. You, your Subcommittee Members and this Congress have an opportunity to mitigate the harm visited upon the domestic dairy industry by our GATT negotiators.

Again, thank you for the opportunity to appear before you today.

**SECTION 1215 OF THE AGRICULTURAL RECONCILIATION ACT OF 1995:
GATT-LEGAL, EQUITABLE MANAGEMENT OF DAIRY IMPORTS**

Section 1215 Will:

(1) Authorize the Secretary of Agriculture to more efficiently administer dairy product import licenses by strengthening and codifying current regulatory discrimination protections, and make mandatory the adjustment of a country of origin in the event that it is shown that the country discriminates against dairy product import licensees in the United States.

(2) Prohibit the Secretary from imposing any penalty with respect to the failure of a licensee to fulfill any portion of its license amount for dairy product imports from a country of origin that establishes, sanctions, or otherwise permits a state trading enterprise or export monopoly to control the export of the product concerned. It will also require the Secretary to take action against international state trading enterprises or other export monopolies that export dairy products through a designated importer in the United States if they engage in certain discriminatory practices.

In such an event, the Secretary would be required to revoke the eligibility of the country of origin to designate a licensee for the import of amounts of cheese under license for a period of not less than 3 years, consistent with Uruguay Round commitments. Any import license amounts made available by the revocation of licenses will be distributed among eligible licensees on the basis of a rank-order lottery system.

(3) Afford U.S. dairy trading companies the same license protection afforded exporting countries under the Uruguay Round Agreement by ensuring that licenses for the import of cheese held by a historical licensee shall not be reduced from the tonnage in effect prior to the Agreement without the consent of the licensee, except for cause. This modest protection of the significant investment of historical licensees in plant, equipment, and intangible assets contrasts with the treatment afforded to cheese exporting countries that were assured in writing by the U.S. Government that the quantity of the cheese access allocated to the country under the Agreement will never be diminished, without regard to cause.

Section 1215 Will Not:

(1) Violate any of our commitments under the Uruguay Round Agreement.

(2) Restrict the import of any amount of cheese or dairy products into the United States.

(3) "Tie the Secretary's hands" with regard to the regulatory oversight of cheese import licenses. The Secretary can enforce and revise current cheese licensing regulations as necessary, except that the Secretary may not diminish the license quantities of current historical license holders without cause.

TESTIMONY OF

**EUGENE L. BOVEE
SENIOR VICE PRESIDENT**

of

CoBANK

**Presented
to the
Subcommittee on International Economic Policy and Trade
of the
Committee on International Relations
U.S. House of Representatives**

October 19, 1995

Mr. Chairman and members of the subcommittee, my name is Gene Bovee. I am a senior vice president with CoBank. As part of the Farm Credit System, CoBank provides financial services to farmer-owned cooperatives and rural utility systems; and facilitates the export of U.S. agricultural products. With \$17 billion in assets and customers doing business throughout rural America, we are keenly interested in federal policy issues that affect agriculture, agricultural exports, and rural communities.

Since 1982, CoBank has provided over \$20 billion in financing to support export sales of some 30 agricultural products to over 40 countries. The majority of this financing has been under U.S. government export guarantee programs. This financing is provided through an extensive network of correspondent banks located in some 65 countries. CoBank has a unique role in promoting U.S. agricultural exports as we are the only financial institution in the world that markets U.S. agricultural products in conjunction with our lending program. CoBank is the most active participant in the Department of Agriculture's Export Loan Guarantee Programs, GSM-102 and GSM-103, accounting for nearly 50 percent of all guarantees issued in recent years. For the past several years, CoBank has been the only U.S. bank consistently active in these programs.

I am pleased to have the opportunity to present testimony on our ideas for making the Department of Agriculture's export programs more effective. We are all affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete in this increasingly complex environment.

Testimony-October 19, 1995
Eugene L. Bovee

-2-

We believe the U.S. government needs to develop sound, economically viable strategies for maintaining and developing new export markets over the long-term. Key components of this strategy must involve the marketing and financing of U.S. agricultural products.

It appears the world market place is going to continue to demand more value-added or further processed food and agricultural products. As incomes increase, demand for higher protein foods increases in developing countries. In developed countries, demand for convenient, lower-fat, and specialty foods is increasing. The implications are that farmers, ranchers, cooperatives, and agribusiness may need to change the types or mix of products they produce and market. High-value and value-added products offer the best opportunity for growth in a number of export markets. The U.S. is uniquely situated to take advantage of these high-value opportunities while also profiting from the continued demand for bulk agricultural commodities in a number of traditional markets.

Market intelligence and effective promotion of U.S. agricultural products will be even more important in the dynamic global markets of the future. For this reason alone, we believe it is critical to recognize the importance of our marketing efforts in export market and development programs. Careful consideration should be given to how to maintain and improve such programs.

The financial services industry is also continuing to become more global in scope. Lenders must be flexible and form strategic alliances to be of maximum service to their customers. As bankers, we no longer operate in merely a U.S. economy. The increasingly global economy is more competitive than ever. Trade agreements will facilitate freer trade and provide more opportunities in the long-term, especially for U.S. agricultural exports. It is important that

Testimony-October 19, 1995
Eugene L. Bovee

-3-

exporters, financial institutions, the USDA, and other interested parties work together to develop the tools to participate in this growing market.

Exporting of goods requires an ongoing, long-term commitment. A successful export policy cannot be designed as a short-term, sporadic solution to selling excess supply, nor should it be viewed as a politically correct and popular business venture to address a domestic problem.

An important component to the strength of our economy as a whole is international trade. Agriculture is an obvious area in which the U.S. can compete globally and contribute to a healthy U.S. trade balance. In addition, and perhaps more importantly, agricultural exports are critical to the health of our farming sector and rural America.

Our research, based on USDA data, indicates a high positive correlation between the level of U.S. agricultural exports and farm income. It is critical that policy makers not underestimate the importance of expanding foreign markets for our farm products. We urge the administration and the Congress to continue to support commercial export programs such as GSM, Eximbank, and PL-480, and to work to make these programs more efficient. These programs are important to the economic health of our agricultural sector and to our global competitiveness. Similar programs exist in other countries where they often operate with more flexibility and as a part of a better coordinated overall trade strategy.

It is important that export finance and the promotion of U.S. exports not be seen as being contrary to present initiatives for free trade. Such programs can support and facilitate free trade, particularly when done on commercial terms. We at CoBank believe the key to many U.S.

Testimony-October 19, 1995
Eugene L. Bovee

-4-

agricultural products remaining competitive in world markets will continue to be the successful implementation of the Export Credit Guarantee Programs, GSM-102 and GSM-103.

The Commodity Credit Corporation's GSM Export Credit Guarantee Programs have proven to be an efficient and cost effective means of supporting the export of U.S. agricultural commodities and products. The cooperation demonstrated by the respective parties to these transactions is also an example of how public and private entities can productively work together. These types of cooperative efforts will be required to be more competitive in the future.

The purpose of the GSM programs should be purely and simply to increase the amount of agricultural products exported from the United States. This is emphasized by the CCC repeatedly in its prefaces to the Commodity Credit Corporation's regulations, which provide that "these programs...are intended to:

1. Facilitate exportation;
2. Forestall or limit decline of exports;
3. Permit exporters to meet competition of other countries; and
4. Increase commercial exports of U.S. agricultural commodities."

This objective is also emphasized by Congress in the 1990 amendments to the Agricultural Trade Act of 1978, which states that "...the long-term agricultural strategy...shall be designed to ensure - 1) the growth of exports of United States agricultural commodities; 2) the efficient, coordinated use of federal programs designed to promote the export of United States agricultural commodities;..." The export credit guarantee programs have been highly successful and cost

Testimony-October 19, 1995
Eugene L. Bovee

-5-

effective in helping to move U.S. agricultural products into world markets and accomplishing these stated objectives.

In the current situation it is worthwhile to look back in history at how these programs have been utilized. Congress has essentially mandated that at least \$5 billion per year be made available for GSM-102 credits and \$500 million per year for GSM-103 credits. The CCC annually approves allocations of these amounts to various countries. As exporters make sales, they register for guarantees under these allocations. In only two years, 1991 and 1992, did the allocations for the GSM-102 program exceed the \$5 billion mark, and only in 1992 did the registrations exceed that when they approached \$5.595 billion. In the years 1988 through 1992, there were high levels of registrations of guarantees relative to allocations. During this period of time, approximately 90 percent of all dollar amounts allocated were registered as guarantees.

It is interesting to note the decline in both allocations and registrations over the past several years. This recent decline is a result of the way the programs are being utilized and the movement from public sector buying to more private sector buying within the importing countries. The period 1988 through 1992 was marked by large allocations and registrations where foreign government buying entities financed the importation of foodstuffs under these programs through government banks with a CGA (contract guarantee assurance) provided to the Commodity Credit Corporation by the foreign government, effectively guaranteeing repayments to the CCC by the foreign government. Principal users of the program with CGAs during this period of time were Algeria and Mexico on a consistently large basis. Countries that used the program at high levels on a less consistent basis included Morocco, Tunisia, the Former Soviet Union, and Russia.

EOjd/TMi/EB_TEST

Testimony-October 19, 1995
Eugene L. Bovee

-6-

The large drop-off of registrations relative to allocations has been a problem experienced in certain public sector markets such as Russia. Other issues have arisen such as in Venezuela where a single private sector borrower defaulted and the entire Venezuela program was shut down for all other users. More recently, Mexico has been having Peso problems which could have a detrimental effect on U.S. exports. Also Algeria, a large user, is again rescheduling its debt through the Paris Club and will probably need to obtain additional GSM allocations to satisfy all of its food needs.

The preceding discussion acts as evidence that the markets are changing dramatically--moving from public to private sector purchasers. This has major implications for the continued successful utilization of the programs to move agricultural commodity exports. This is an opportune time to recognize the appropriate purpose of these programs and to provide certain enhancements to make them more effective in a changing market place. The purpose of facilitating and increasing the export of U.S. agricultural commodities and products on essentially commercial terms needs to be reemphasized. Focus on this basic purpose is critical to the long-term health of U.S. agriculture and its continued competitive position in world markets.

Enhancements to the programs are needed to provide increased flexibility to meet the needs of the changing global market place. Such enhancements should come in the form of changes to the statute, program regulations, and practices to streamline and simplify the overall process. This can be done by expanding payment methods to include sight letters of credit, deferred payment terms, and the use of bank guarantees. The terms of financing should be flexible enough to accommodate a particular transaction from one day out to six or seven years, and any maturity in between. The fee structure should be designed to reflect the tenor of financing, as well as other risk factors involved.

EOjd/TMi/EB_TEST

Testimony-October 19, 1995
Eugene L. Bovee

-7-

The administration of the program needs to be more responsive to meet the changing needs of buyers and sellers and to take advantage of market opportunities. The concept of regional programs has great promise and should be continued and expanded, perhaps to include the concept of global programs. Other, more specific suggestions are as follows:

- **Promote Value-Added Exports**—Domestic content requirements need to be made more flexible and practical, consistent with commercial considerations. The current requirements make it difficult to obtain a GSM loan guarantee for products that contain even minor amounts of substances not produced in the U.S. Value-added products often contain small amounts of spices or other ingredients for which it is difficult to prove a U.S. origin.
- **Implement Facilities Financing Program**—The 1990 Farm Bill authorizes a loan guarantee program for loans to finance facilities in a foreign country that would be used to handle, market, process, store or distribute imported agricultural products. Such facilities are often provided by competitors to improve the marketability of their products. However, current law limits the U.S. financing of such facilities to "emerging democracies," a term that has never been defined. CoBank supports implementation of the facilities financing program where there are new or expanded market opportunities for U.S. agricultural goods.
- **Modify the Creditworthiness Test**—The 1990 Farm Bill established creditworthiness as a new eligibility criteria for a foreign country to participate in the GSM programs. The Department of Agriculture administers the test—often on a case by case basis for each bank that participates in the GSM program in a foreign country. Unfortunately, the creditworthiness test has taken on paramount importance over maintaining and expanding markets for U.S. products. By the nature of the business, countries that use credit to purchase food do not meet normal credit standards. However, continued access to the GSM programs is dependent on a country continuing to meet its obligations under GSM. This, more than any evaluation of creditworthiness, is the reason foreign purchasers continue to pay their bills.

A commitment to the stated purposes of the program along with minor enhancements to provide flexibility to adjust to competitive commercial terms of world trade would improve the effectiveness of the GSM programs. Increased utilization of the GSM programs is positive for U.S. agriculture and many related industries, as well as the general balance of trade.

Testimony-October 19, 1995
Eugene L. Bovee

-8-

Mr. Chairman and members of the committee, I appreciate the opportunity to present this testimony, and look forward to responding to any questions you may have.

**TESTIMONY OF
THE U.S. MEAT EXPORT FEDERATION**

**BY RONALD W. WILLIS
DIRECTOR OF INTERNATIONAL PROGRAMS**

**BEFORE THE
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE**

**ON THE SUBJECT OF THE
USDA MARKET PROMOTION PROGRAM**

October 19, 1995

I am pleased to be here this morning, Mr. Chairman, to talk about USDA's Market Promotion Program. My name is Ron Willis. I am here today as the director of international programs for the U.S. Meat Export Federation (USMEF), a national trade association with responsibility for developing foreign markets for U.S. red meat products.

The U.S. Meat Export Federation has been part of the USDA Cooperator Program since 1976, when USMEF was first established. We began at that time as a one man office in Denver, Colorado, with little more than a blessing from USDA and good wishes from the American National Cattlemen's Association, the National Pork Producers Council and the American Meat Institute. It was, in fact, a very quiet beginning for what has become an immensely successful venture for the American red meat industry.

Our charge from the outset has been crystal clear: To increase demand for U.S. red meat products in foreign markets. One hundred percent of our energy is devoted to exports.

Since 1976, U.S. red meat products have grown roughly 400 percent, hitting a record \$3.41 billion in 1994. The most significant growth, however, has come in the past 10 years, with the advent of the Targeted Export Assistance (TEA) Program in the 1985 Farm Bill. The TEA Program, of course, was the progenitor of today's Market Promotion Program. During this same period, it is also significant to note that the producer-funded beef and pork checkoff programs came into prominence with respect to foreign market development.

The U.S. Meat Export Federation is a multi-species, multi-segmented organization. USMEF membership is comprised of eight distinct sectors, representing the entire production and marketing chain. The National Cattlemen's Association, the National Pork Producers Council, the American Sheep Industry Association, the American Meat Institute and the American Farm

Bureau Federation are among USMEF's 165 members. USMEF packer, processor, purveyor and trader members represent as much as 90% of total U.S. red meat exports.

What Will a Cut in MPP Funding Mean to the Red Meat Sector?

Mr. Chairman, I received a call earlier this week from one of our members asking what effect the 1995 Farm Bill would have on USMEF if the MPP budget were cut from its annual appropriation level of \$110 million to \$75 million, as is being considered in the Senate. This particular USMEF member is a state corn growers' association that has invested nearly \$1.5 million in corn checkoff dollars in USMEF export programs over the years to increase corn utilization through sales of U.S. red meat products in global markets.

He was looking for a magic number and, quite frankly, such a number does not exist. There are too many variables over which we have no control: Exchange rates, production levels among competing suppliers, live animal prices, and regional economies to mention just a few. The current situation in Mexico is a good case in point. U.S. pork exports to Mexico in 1994, prior to the peso devaluation in December, were up 31% over the year before. Since the devaluation, U.S. pork sales to Mexico are down 58%. This important export market will recover and the industry will regain its marketing investments in Mexico. It demonstrates, however, how difficult it is to isolate a single factor like MPP and quantify its impacts.

Unlike economic conditions, the Market Promotion Program is a factor that we can and do control. How we have chosen to use this program has made a significant difference in our export gains around the world. We know the effects of our retail promotions in different markets. We know how many additional covers a restaurant is likely to see with a special promotion featuring U.S. meat. We know that members of trade teams are significantly more likely to purchase U.S. meat when they return home. We know as well that in-store training seminars and merchandising contests lead to increased shelf-space for U.S. meat products. If the Committee is interested in this type of data that we use to evaluate our programs, I would be happy to make it available in followup to today's hearing.

In more general terms, a 32% cut in the MPP program (\$110--\$75 million) will make it increasingly difficult for small businesses to get involved and stay involved in exports. The smaller and medium-sized companies rely heavily on associations like USMEF to lay the groundwork and assume a large share of the risk associated with entering a new market and qualifying foreign buyers. As a result, only large companies that can afford the risk will pursue these export opportunities. This, we do not believe, is in the industry's overall best interest, nor do we believe it is in keeping with congressional efforts to make the MPP program more available to small businesses.

A 32% cut in the MPP program will also force USMEF to pull back, if not eliminate its exploration in new, longer term markets. In essence, we will concentrate our resources (government and private alike) to protect the larger, more developed markets such as Japan,

Mexico and South Korea. The groundbreaking work we are now doing in Russia, China, the Philippines and parts of South America for smaller exporting companies and American producers will be lost.

I should add that agricultural cooperators in USDA's Foreign Market Development (FMD) program have also received significant reductions in funding from this program in recent years. In USMEF's case, this amounts to a 30% reduction between FY93 to FY96, or \$600,000.

How Important are MPP and Exports to the Red Meat Industry?

In 1985, the American beef industry shouldered a trade deficit of \$863 million. Today, the beef industry enjoys a trade surplus of \$880 million, due principally to the industry's major export gains in Japan, Mexico, Canada, and the Republic of Korea. Under the new World Trade Organization and with the North American Free Trade Agreement in place, the American pork industry this year is following suit and may well achieve its own first-ever trade surplus.

A number of factors have combined to achieve this enviable result--increased access to important markets, growing private-sector support for international trade, and USDA export programs. Without USDA's MPP and FMD programs, the meat industry's trade surplus today would be little more than a dream.

The MPP and FMD programs have given the American red meat industry the critical mass necessary to achieve significant gains in foreign markets. These export achievements continue to grow, as do their contributions to the American economy in jobs, personal incomes and additional tax revenues. According to a Northern Colorado University study, U.S. red meat exports in 1993 were responsible for more than 240,000 U.S. jobs.

So, too, have red meat exports had a significant impact on livestock and feed grain producers. CF Resources, Inc., an independent research firm in Denver, Colorado, reports U.S. red meat exports in 1994 added \$84 per head to the value of a fed steer and more than \$8 per head to the value of slaughter hogs. Corn and soybean producers benefit as well, with \$505 million in corn and soybeans exported in 1994 in the form of high-quality, value-added U.S. red meat products.

What Has Made MPP so Effective for the Red Meat Sector?

The U.S. Meat Export Federation is very proud of its track record in foreign markets and its judicious use of MPP, FMD and private industry resources. By the same token, our export programs can be improved and we continue to strive through a very rigorous evaluation system to correct our mistakes and improve each year. The same, we think, can be said of the MPP program. This is an excellent program that has delivered tremendous results for American agriculture, rural America and the U.S. economy. It is a program, however, that can be improved.

I would like to talk about some of the ways we think these improvements can be made but first I would like to say a few words about how and why the MPP program has worked so well for USMEF and the red meat sector.

1. A MAGNET FOR PRIVATE SECTOR SUPPORT

USMEF received \$10.5 million in private-sector funding this year to develop foreign markets--half of USMEF's budget worldwide, including MPP and FMD funds. This compares to \$1.5 million in private sector funding in 1987 when USMEF first received Targeted Export Assistance funds.

The importance of industry checkoff programs cannot be over-emphasized, nor should the role that USDA export programs have played in attracting these industry investments. Checkoff programs today (beef, pork, corn and soybean programs) account for approximately 90 percent of all USMEF private-sector funding.

2. A COMPREHENSIVE INDUSTRY-WIDE, MULTI-SPECIES APPROACH

USMEF is responsible for planning, implementing and evaluating industry export programs and is accountable to USDA and the red meat sector. As industry investments in international marketing have grown in recent years, USMEF has come to work more closely than ever before with its private funding partners to ensure a coordinated, industry-wide approach.

The benefits of this approach include operating efficiency, program synergy and combined strength. In foreign markets, representing the entire production and marketing distribution chain is a decided advantage for USMEF and the red meat industry, as is the fact that USMEF represents all red meat products. Recent sales of U.S. pork in Japan, for example, have benefited from USMEF work with retailers on the beef side. These increased sales of U.S. pork impact sales of pork from Taiwan and Denmark; they do not impact sales of U.S. beef.

3. A FOCUS ON INDUSTRY BENEFITS

USMEF export programs emphasize industry benefits, as opposed to company benefits. We understand that all sales are ultimately made by private companies, but our role as a cooperator in developing foreign markets is very different from that of a private company. USMEF programs are designed to facilitate industry sales, not to funnel private or public sector funding to private companies.

USMEF programs focus on issues and marketing strategies that benefit the entire industry, such as product quality, food safety, merchandising and market research. USMEF programs are designed to create key linkages between the foreign trade and U.S. suppliers. USMEF stimulates interest in U.S. meat promotions in the retail and HRI sectors by encouraging foreign customers to feature U.S. products, rather than seeking to promote specific company products.

Ninety-five percent of USMEF resources are devoted to programs that are generic in nature. The remaining 5 percent of USMEF's total resource allocation is divided among approximately 60 different U.S. companies. Most of USMEF's branded program is devoted to the translation of product brochures into foreign languages and U.S. company participation in foreign trade shows. We have found that large, high profile advertising campaigns are not the most cost-effective means for achieving industry export goals.

4. QUALIFIED IN-COUNTRY STAFF AND MARKET DRIVEN PROGRAMS

The signals that drive USMEF strategies and MPP expenditures come first and foremost from the foreign markets. USMEF qualifies all markets on the basis of a realistic assessment of its export potential, local market conditions and competitive factors. All marketing priorities, strategies, programs and resource allocations are made according to USMEF's Total Quality Marketing grid, which establishes measurable goals and marketing strategies for each sector in the market—trade, foodservice, retail and consumer.

There is no substitute for in-country staff with the marketing and technical expertise necessary to represent the industry. Many of the issues affecting export sales, such as food safety and product handling, cannot be addressed effectively by individual companies or the U.S. government. USMEF has eight marketing offices and three outposts in strategic locations around the world. USMEF outposts in Moscow, Tel Aviv, Beirut and the Caribbean are funded under contract on an annual basis.

Over the years, having an in-country presence has made it possible for USMEF to develop a rapport with the foreign trade that is akin to a marketing partner. Without a strong in-country presence, an effective relationship with the foreign trade cannot be sustained. The benefits of this relationship accrue to all U.S. companies who do business in the region, not just a select few.

5. INCREASED MARKET ACCESS

Markets do not unfold in a steady chronological progression. While the stages of progression are predictable, the factors that influence their timing are far too numerous and fluid. In the future, marketing issues will increasingly supplant issues of access. While we do not yet have free and unfettered access to global markets, the wheels are turning inexorably in the right direction.

The red meat industry, has come a very long way in recent years in gaining greater access to world markets. Japan, the Republic of Korea, Canada, and most recently Mexico are all good examples. Now, the World Trade Organization, with its new trade rules and disciplines, will take the industry to new levels of trade liberalization.

How Stiff is the Competition for Lucrative Export Markets?

American agriculture, despite its enviable trade surplus of \$18.9 billion last year, still lags far behind other nations in terms of its commitment to trade and its export-mindedness. In 1994, record U.S. beef exports accounted for 10.5% of the wholesale value of total U.S. beef production, up from 3.2 percent just 10 years ago. Similarly, the U.S. pork industry exported 6.1% of the wholesale value of its production last year—six times what it was in 1985, but as in the case of beef, still only a small fraction of its export potential. USMEF has identified annual export potential for U.S. red meat products exceeding \$7.0 billion in the year 2001, more than double today's export levels.

For purposes of comparison, I would point out that our two top competitors in international markets export a much larger share of their domestic production than the United States. Australia exports 64 percent of its total beef production, while Denmark exports 76 percent of its total pork production. The MPP program has made it possible for USMEF to attract more U.S. companies in foreign trade and to involve them in more export markets.

Australia outspends the United States by a factor of nearly 3:1 promoting "Aussie" beef in Japan and clings to a 46 percent share of the Japanese beef import market. Denmark, on the other hand, spent an estimated \$52-54 million this year alone to subsidize sales of Danish pork in Japan. That amounts to roughly five times what the United States will spend for all red meat products in the Japanese market in 1995, government and private sector funds combined. Predictably, Denmark's share of the Japanese pork import market in 1994 was double the U.S. share of 14.7%.

More than at any time in history, the future of American agriculture rests in international markets. Ninety-six percent of the food consumed in this world is consumed outside U.S. borders. It is no coincidence that GATT negotiators, after agreeing to reduce agricultural subsidies, created a special provision under the World Trade Organization for GATT-legal "Green Box" programs. Like MPP and FMD, these programs are intended to create new markets for agricultural products without artificially distorting trade flows or masking naturally occurring market forces.

It is imperative for the U.S. government to continue its one-two punch in opening foreign markets and partnering with the private sector to secure market share once market access has been achieved.

How Can the MPP Program be Improved?

Despite what some have called a formula for export success, I believe we can and must do better with our trade programs—the stakes are much too high and our competition is far too motivated to maintain the status quo.

Looking ahead to the new farm bill, USMEF envisions a more focused export initiative under USDA's Foreign Agricultural Service to reflect the new trade realities under the World Trade Organization. This new initiative could easily come from today's Market Promotion and Foreign Market Development programs. With this in mind, I would offer the following program evolutions for consideration:

1. Greater emphasis on generic programs, leaving more responsibility for branded programs to private companies.
2. Increased emphasis on value-added products that bring the greatest return to rural America and the American taxpayer.
3. Restricted use of USDA promotional dollars in markets which require export subsidies to sell U.S. products. USMEF questions the use of taxpayer funds to promote product sales in a market that requires government-funded price subsidies to be competitive. Other non-promotional activities, such as trade education, trade servicing, and market research, however, would certainly constitute appropriate expenditures of both private and public funds for the purpose of laying the groundwork for commercial sales in the future.
4. More unified, industry-wide representation in USDA export programs, as opposed to state or regional representation. USDA allocations for export programs should consolidate, not fragment industry strategies or create intra-regional competition for resources and market share. This fragmentation is counter productive. It confuses foreign customers and diminishes program efficiency and effectiveness.
5. An opportunity for the private sector to use MPP funds in the United States to help U.S. companies explore, penetrate and succeed in foreign markets. Again, this training and assistance should be part of each sector's industry-wide marketing plan and would include specific orientation and export training programs for U.S. companies in addition to the implementation of export credit programs. The industry's export marketing organization should be responsible for delivering this valuable industry service.

Are Export Subsidies a Substitute for MPP?

USMEF makes a clear marketing distinction between export subsidies, which will be curtailed under the World Trade Organization, and Green Box programs like MPP and FMD. The EEP program, for example, while effective in moving potentially large product volumes on a short-term basis, can inadvertently disrupt domestic industries while taking market share from other supplying countries. Subsidized imports can, in some cases, retard market development and, hence, limit that market's capacity to facilitate import sales on a commercial basis.

Export subsidies alone do not develop the lasting trade relations and partnerships that are ultimately required for dependable, sustained trade. Trade subsidies have a legitimate place in

the U.S. trade arsenal, but they should not be used as a substitute for long-term market development programs. The goal of all export programs should be to create new and expanding markets where free trade and commercial sales are the rule, not the exception.

Under the new World Trade Organization, the U.S. red meat industry will not be in a position to use export subsidies to confront unfair pricing practices in foreign markets. On the other hand, the European Union (EU) estimates it will spend \$2.07 billion in export restitutions in 1996 to support its beef industry. Also in 1996, the EU estimates it will spend an additional \$130 million in export restitutions for its pork industry.

These EU support levels in 1996 represent a \$165 million reduction in subsidies over 1995 expenditures, as required by the new World Trade Organization. A substantial portion of this funding will likely be directed to WTO-legal market development programs.

With the reality of continued export subsidies on the part of the European Union, the prospect of the EU plowing an additional \$165 million into export marketing programs for EU-produced beef and pork is sobering. USMEF joins with the National Cattlemen's Association, the National Pork Producers Council and the other members of the Meat Industry Trade Policy Council in supporting the use of USDA funds saved from reductions in U.S. program subsidies to increase revenues for "Green Box" marketing programs for U.S. agricultural products.

Mr. Chairman, we are on the threshold of a new era in international trade and domestic farm programs. We continue to encourage a stronger role for the private sector in developing foreign markets for U.S. red meat products. At the same time, we recognize the realities of the market place and the need to do more, not less in the trade arena. Now is the time to strengthen the partnership between USDA and the private sector if we are to achieve our full export potential. On behalf of the U.S. Meat Export Federation, I ask that you support the MPP program in the 1995 Farm Bill at the current level of \$110 million.

Thank you.



3 9999 05983 921 5



Australian Dairy Industry Council Inc.

30 October 1995

Mr A Schumacher
Administrator - Foreign Agriculture Service
United States Department of Agriculture
Washington DC
USA

Dear Mr Schumacher,

I have seen a report of the House International Relations Committee's recent hearing on the trade provisions of the 1995 Farm Bill in which you are reported to have said that "the United States is competing with countries like Australia that have aggressive programs that give direct grants for increasing exports in Asian markets." I believe that you went on to say that the administration was proposing an expansion of US export promotion expenditure and continued full funding of the DEIP program in response to the alleged Australian actions.

I am concerned that such a description of the Australian market promotion programs exaggerates their impact and may have left members of the Committee with an incorrect impression of their size and purpose.

The Australian dairy industry does not receive any export subsidies. Nor is it true that the Australian Government "aggressively" supports Australian export market programs. The Government offers small Gatt-consistent grants for market development, which are available to firms in any industry. They are limited in scope and duration and subject to strict conditions which ensure that they apply to small companies who are new to export marketing.

The total expenditure on Export Market Development Grants to dairy companies in the financial year 1993/94 was \$A1.3 million (less than \$US1 million). To put this modest expenditure in perspective, you should be aware that Australian dairy exporters supply approximately twelve percent of world dairy import demand and one third of the dairy import demand of Asian countries. Our exports in 1993/94 amounted to \$A1.3 billion.

The Australian dairy industry acknowledges that the US Government may provide market development programs for US companies in accordance with the provisions of the WTO agreements. In our commercial judgment, however, price subsidisation provided by programs such as the DEIP is more harmful than beneficial to the US dairy export

MILK MATTERS

prospects and tends to corrupt the very markets in which US companies are seeking to expand their commercial activities.

Yours sincerely,

Peter Gallagher
Chief Executive Officer

cc. Representative Toby Roth
House International Relations Committee
Subcommittee on International Economic Policy
and Trade



ISBN 0-16-055766-6



9 780160 557668

90000

